



200 E. 18TH STREET, AUSTIN, TEXAS 78701 | P. O. BOX 13207, AUSTIN, TEXAS 78711-3207 | (512) 867-7711 | (877) 275-4377 TOLL-FREE | WWW.ERS.STATE.TX.US

December 13, 2012

Qualified Auditor

RE: Request for Proposal to Conduct an Audit of the Benefit Plans provided to Participants of the Texas Employees Group Benefits Program

To Whom It May Concern:

The Employees Retirement System of Texas ("ERS") in accordance with Sections 1551.055 and 1551.062 of the Texas Insurance Code will be soliciting a Request for Proposal ("RFP") from qualified auditing firms to perform audits of selected Carriers, HMOs, Medicare Advantage HMOs and PPOs, and third-party administrators of the HealthSelect<sup>sm</sup> of Texas and GBP Programs, which may include, but not be limited to, life, health, dental and medical benefit programs provided to Participants under the Texas Employees Group Benefits Program ("GBP").

A Texas Register Notice has been published at: <http://www.sos.state.tx.us/texreg/index.shtml> and an Electronic State Business Daily ("ESBD") Notice has been published at: <http://esbd.cpa.state.tx.us> with additional RFP information. Your firm has been identified as offering the services listed above, and ERS encourages you to review the posting and request access to the secured bid materials when they become available on the ERS website.

ERS anticipates receiving high quality proposals for the services listed above, and we encourage your organization to give full consideration to the development of a proposal that complies with the RFP requirements.

If you have any questions regarding this process, submit your inquiry directly to the iVendor Mailbox at: [ivendorquestions@ers.state.tx.us](mailto:ivendorquestions@ers.state.tx.us).

Thank you for your interest in doing business with the GBP.

Sincerely,

A handwritten signature in black ink that reads "Robert P. Kukla". The signature is written in a cursive style.

ROBERT P. KUKLA  
Director of Benefit Contracts

# **Request for Proposal**

**To Conduct an Audit of the Texas Employees  
Group Benefits Health and Welfare Programs**



**December 13, 2012**

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# GBP Audit RFP Deliverables Checklist

**Order of Return:** The entity submitting a Proposal in response to the RFP (“Auditor”) is required to submit a total of six (6) sets of the Auditor’s Proposal in the following formats: One (1) printed “Original” and three (3) additional printed copies shall be submitted and include fully executed documents as appropriate, signed in **blue ink** and without amendment or revision. The remaining two (2) copies of the entire Proposal shall be submitted via CD-ROMs in Excel or Word format as applicable and labeled *GBP Audit Proposal Duplicate*. **No PDF documents (with the exception financial statement materials) may be reflected on the CD-ROMs.**

All binders must contain:

PAPER AND CD-ROM FORMAT	RFP REFERENCE
<b>RFP FEEDBACK FORM</b>	Page vi
<b>TAB I Instructions</b>	<b>I.</b>
<input type="checkbox"/> One (1) printed “Original” (which shall be labeled as such) and three (3) additional printed copies, which shall be labeled as “copy”, and  Two (2) copies of the entire Proposal, which includes <b>all</b> Confidential and Proprietary and <b>all</b> Public Information, shall be submitted via <b>CD-ROMs</b> in Excel and/or Word format and labeled <i>GBP Audit RFP Proposal Duplicate</i> . <b>No PDF documents may be included on the CD-ROMs with the exception of financial statements materials.</b>  All bid materials shall be packaged collectively in one (1) sealed container and submitted to ERS.	I.B.4.a. – I.B.4.b.
<input type="checkbox"/> Executed RFP Signature Pages signed in <b>blue ink</b> (Appendix A)	I.B.8.
<input type="checkbox"/> Executed Data Security and Breach Notification, signed in <b>blue ink</b> (Appendix D) this appendix is a <b>preferred submission</b>	I.B.14.
<input type="checkbox"/> Executed Business Associate Agreement, signed in <b>blue ink</b> (Appendix C), this appendix is a <b>preferred submission</b>	I.B.17.
<input type="checkbox"/> Executed Nondisclosure Agreement, signed in <b>blue ink</b> (Appendix F), this appendix is a <b>preferred submission</b>	I.B.18.
<input type="checkbox"/> Executed Contractual Agreement, signed in <b>blue ink</b> (Appendix B), this appendix is a <b>preferred submission</b>	I.B.19.
<input type="checkbox"/> Confidential and Proprietary schedule	I.B.27.
<input type="checkbox"/> First two (2) CD-ROMs shall <b>only</b> contain copies of all information that the Auditor considers to be its <b>confidential and/or proprietary information</b> . These CD-ROMs shall be labeled “ <b>Confidential and/or Proprietary Information</b> .”  Second two (2) CD-ROMs shall <b>only</b> contain copies of all information that the Auditor considers to be its <b>public</b> information. These CD-ROMs shall be labeled “ <b>Public Information</b> .”	I.B.28.
<input type="checkbox"/> HUB Designation Confirmation	I.B.29.
<input type="checkbox"/> Provide a detailed scope of services	I.C.1.
<input type="checkbox"/> Provide a detailed proposed project plan	I.C.2.
<input type="checkbox"/> Provide brief summary resumes	I.C.5.a.
<b>TAB II Proposal Evaluation Criteria</b>	<b>II.</b>
<input type="checkbox"/> Minimum Requirements ( <i>evidence of Auditor’s satisfaction of Requirements</i> )	II.B.
<input type="checkbox"/> Preferred Criteria ( <i>evidence of Auditor’s satisfaction of Criteria</i> )	II.C.

<b>TAB III Audit Guidelines</b>	<b>III.</b>
<input type="checkbox"/> Provide a copy of their sample outline report of the Executive Summary and detail findings report	III.E.
<b>TAB VI Fee Proposal</b>	<b>VI.</b>
<input type="checkbox"/> Financial Specifications and Fee Proposal Responses	VI.B.1. – VI.B.1.b.
<b>TAB VII Organizational Information</b>	<b>VII.</b>
<input type="checkbox"/> Organizational Information Responses and Requested Materials	VII.A.1. – VII.D.5.a.
<b>TAB VIII Deviations</b>	<b>VIII.</b>
<input type="checkbox"/> Deviation Responses	VIII.A.1. – VIII.A.12.
<b>TAB IX Interrogatories</b>	<b>IX.</b>
<input type="checkbox"/> Interrogatory Responses and Requested Materials	IX.A.1. – IX.C.17.

**NOTE: Keep this Check List for your records. Do not return with your submission.**

## Request for Feedback

### Employees Retirement System of Texas

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The Employees Retirement System of Texas, Benefit Contracts Division, periodically publishes requests for proposals, applications or information and is interested in your organization's feedback regarding our request. To assist the Benefit Contracts Division in creating future requests, we would be interested in knowing what we could do differently or how we could make our request more user-friendly. Please take a moment to answer the following questions and return it at your earliest convenience.

- Did your organization submit a bid?  Yes  No
- If No, why did your organization elect not to bid? (Check all that apply)
  - Timing, not enough time to complete bid
  - Contract Provisions/Parts of the Contract
  - Complexity of RFP
  - Other:

- Please elaborate on question #2 or provide other reasons for not submitting a bid.

- Please provide any suggestions that might improve the bid process.

#### Additional Comments

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#### About Your Organization

Name \_\_\_\_\_ Contact E-mail \_\_\_\_\_  
Address \_\_\_\_\_ Phone \_\_\_\_\_  
City, State, ZIP Code \_\_\_\_\_

An ERS representative may, if necessary, contact you by email or telephone for further clarification of your responses.

**Thank you for your consideration and participation!**

# I. Instructions

## A. Request for Proposal (“RFP”) Summary

- A.1. **Introduction.** The responsibility for the administration of the Texas Employees Group Benefits Program (“GBP”) is vested in the six (6) member Board of Trustees (“Board”) of the Employees Retirement System of Texas (“ERS”). Pursuant to § § 1551.055 and 1551.062 of the Texas Insurance Code (“TIC”), ERS is authorized to ensure that insurance claims filed under the GBP are processed and paid in accordance with applicable contractual agreements with outside GBP Vendors (“Vendors”).

ERS is soliciting proposals from qualified auditing firms to perform audits of certain selected Carriers, HMOs, Medicare Advantage HMOs and PPOs, and third-party administrators of the HealthSelect<sup>sm</sup> of Texas and GBP Programs, which may include, but not limited to, life, health, dental and medical programs, provided to GBP Participants under the GBP for the three-year period beginning upon ERS’ execution of the Contract through an initial term of August 31, 2016. The qualified provider of auditing services (“Auditor”) shall provide the services required in the RFP and meet other requirements that are in the best interests of ERS, the GBP health and welfare programs, its Participants and the state of Texas, and shall be required to execute a Contractual Agreement (“Contract”) provided by, and satisfactory to, ERS.

- A.1.a. An Auditor wishing to respond to this request shall meet all of the minimum requirements as referenced in Article II of the RFP. A qualified Auditor may submit a proposal (“Proposal”) and bid response materials to provide the specified services required and outlined herein.

- A.2. **Statistical Audit.** The Auditor shall provide auditing services for certain benefit programs administered by ERS for Participants of the GBP for benefits paid during FY 2011 through FY 2012. Proposals will be accepted for the products identified in this RFP.

A.3.

**Schedule of RFP Process.** The RFP process and Contract awards shall be conducted in accordance with the following schedule, unless notified otherwise by ERS:

On or After December 13, 2012	12:00 p.m. (CT)	The RFP is available on ERS' website. To access the RFP, the Auditor shall email a request to: <a href="mailto:ivendorquestions@ers.state.tx.us">ivendorquestions@ers.state.tx.us</a>  <b>A USER ID and Password will be provided only to those qualified bidders requesting access to the secured sections of the RFP. The Auditor is prohibited from contacting agency employees or officials regarding any aspect of the RFP by telephone or in person throughout the bid process other than as directed by ERS.</b>
December 28, 2012	4:00 p.m. (CT)	Submission deadline for ALL RFP questions. RFP questions should be submitted to: <a href="mailto:ivendorquestions@ers.state.tx.us">ivendorquestions@ers.state.tx.us</a>
January 24, 2013	12:00 Noon (CT)	The Auditor is required to submit all bid materials in the formats reflected below in one (1) sealed container: <ul style="list-style-type: none"> <li>• One (1) fully executed "Original";</li> <li>• Three (3) identical printed, hard copies labeled "copy"; and</li> <li>• Two (2) identical copies of the <u>entire</u> Proposal provided on CD-ROMs.</li> <li>• Two (2) CD-ROMs that <b>only</b> include <b>all</b> Confidential and Proprietary information; and</li> <li>• Two (2) CD-ROMs that <b>only</b> include <b>all</b> Public information.</li> </ul> <p><b>A total of six (6) CD-ROMS to be submitted with the Proposal.</b></p> <p><b>No PDF documents (with the exception financial statements materials) may be included on the CD-ROMs.</b></p> <p><b>Submit Bid Materials to:</b></p> <p><b>Robert P. Kukla, Director of Benefit Contracts Employees Retirement System of Texas 200 E. 18th Street; P. O. Box 13207 Austin, Texas 78701; 78711-3207 RE: GBP Audit RFP Proposal</b></p>
TBD		Bid finalists may be required to participate in a face-to-face or teleconference interview session that will be announced at an ERS designated time and location. Required Auditor Participants and interview guidelines will be provided if an interview appointment is extended by ERS.
May 2013		ERS selects Auditor
Upon ERS' execution of the Contract		Audit Contract Begins

**ERS RESERVES THE RIGHT TO EXTEND ANY AND ALL DEADLINES ABOVE, TO REJECT ANY AND ALL PROPOSALS, TO CONTRACT WITH ONE OR MORE FIRMS, OR TO ISSUE A NEW RFP AT ANY TIME, IN ITS SOLE DISCRETION. ERS WILL NOT NOTIFY RESPONDENTS UNLESS THEY ARE SELECTED FOR INTERVIEWS OR ENGAGEMENT.**

- A.4. The Auditor is responsible for reviewing ERS' website [https://www.ers.state.tx.us/community\\_group.aspx?groupid=2&view=contracts](https://www.ers.state.tx.us/community_group.aspx?groupid=2&view=contracts), which provides instructions on how to receive access to the RFP materials. ERS' website provides interested Auditors with background information. The information contained in this RFP offering provides instructions for the Auditor to submit a Proposal to ERS' RFP and specifies a deadline for the submission of questions as reflected in the table provided in Section I.A.3. above and Sections I.B.3. – I.B.4.d. below.

## **B. General Information**

- B.1. **Agent of Record.** ERS shall not designate an Agent of Record or any other such company employee or commissioned representative to act on behalf of either ERS or the Auditor. Any requests for ERS to provide such designation shall be rejected.
- B.2. **News Release.** Prior written approval by ERS shall be required for any news releases regarding a Contract awarded to an Auditor.
- B.3. **Inquiries.** Questions regarding ERS and/or the RFP shall be submitted via email, no later than 4:00 p.m., CT on December 28, 2012. Questions received later than the date and time shown in Section I.A.3. above, shall not be answered.
- B.3.a. In its sole discretion, ERS shall post the question and response that it deems appropriate on ERS' website in a timely manner. Such inquiries should be directed to:
- Robert P. Kukla, Director of Benefit Contracts  
Email: [ivendorquestions@ers.state.tx.us](mailto:ivendorquestions@ers.state.tx.us)
- B.4. **Proposal Submission.** All bid materials shall be packaged collectively in one (1) sealed container and submitted to ERS as noted below. ERS may not consider a Proposal unless the original and all required copies and CD-ROMs are received by ERS at the appropriate address no later than 12:00 Noon, CT on January 24, 2013. The mailing label for the proposal shall be clearly marked as: *GBP Audit RFP Proposal*.
- B.4.a. The one (1) printed "Original" (which shall be labeled as such) and three (3) additional printed copies (which shall be labeled as "copy") shall be submitted with all requested supporting documentation, including, but not limited to, the Signature Pages, (see Section I.B.8.) executed in *blue ink*.
- B.4.b. The remaining two (2) copies of the entire Proposal, which includes **all** Confidential and Proprietary and **all** Public Information, shall be submitted via CD-ROMs in Excel and/or Word format and labeled *GBP Audit RFP Proposal Duplicate*. **No PDF documents may be included on the CD-ROMs with the exception of financial statement materials.**
- B.4.c. For instructions relating to the submission of Confidential and/or Proprietary Information in response to this RFP, please refer to Sections I.B.28. – I.B.28.a. below.
- B.4.d. ERS is not responsible for receipt of any Proposal that is not labeled, packaged or delivered properly. All bid materials shall include complete, properly executed, and detailed supporting documentation as required.

The Auditor shall mail or deliver its sealed Proposal to ERS at the following address, as applicable:

**For Couriers:** Robert P. Kukla, Director of Benefit Contracts  
Employees Retirement System of Texas  
200 E. 18th Street  
Austin, Texas 78701  
RE: GBP Audit RFP Proposal

**For U.S. Mail:** Robert P. Kukla, Director of Benefit Contracts  
Employees Retirement System of Texas  
P.O. Box 13207  
Austin, Texas 78711-3207  
RE: GBP Audit RFP Proposal

- B.5. **Retention of Proposal.** All Proposals submitted become the sole property of ERS.
- B.6. **Notification of Withdrawal of Proposal.** Proposal may be withdrawn prior to the date and time specified for Proposal submission with a formal written notice by an authorized representative of the bidder.
- B.7. **Order of Proposal Materials.** The Auditor shall submit its Proposal with executed Signature Pages, as well as all Proposal materials, in the order prescribed in the *RFP Deliverables Check List* located behind the *Table of Contents* contained in this RFP.
- B.8. **Signature Requirements.** The Chief Executive Officer or other authorized officer who is at a Vice President or higher level of the Auditor shall execute, in **blue ink**, the Signature Pages referenced as Appendix A, which is a part of this RFP. The signature of the Auditor's authorized representative on the Proposal's signature page and all other related documents submitted by the Auditor reflects the Auditor's agreement with the truth and accuracy of all statements, warranties and representations contained in the Proposal and other documents submitted by the Auditor. The signature further reflects the Auditor's authorization for ERS to rely on same for all purposes in connection with the RFP/Proposal process.
- B.9. **Supplements to RFP.** In the event that it becomes necessary, at ERS' sole discretion, to revise any part of this RFP, or if ERS determines that any additional information is needed to clarify the provisions of this RFP, supplemental information shall be provided to each Auditor that has indicated interest in this RFP. However, ERS shall not be bound by any deviations from or to this RFP unless ERS specifically agrees in writing to the specific deviation.
- B.10. **Reserved Rights.** Chapter 1551, TIC, specifies that ERS retains the right to qualify and approve the Proposal of the Auditor that is in the best interest of the employees, retirees and their dependents covered under the Texas Employees Group Benefits Act, Chapter 1551, TIC ("the Act"), and further that ERS is not required to select the lowest proposed rate, but shall take into consideration other relevant criteria, including the Auditor's demonstrated competence and qualifications to perform the audit services and other factors as ERS may require. Evaluation criteria are described in Article II, *Proposal Evaluation Criteria*, of the RFP. ERS may determine that other factors may be considered important based on their review of an Auditor's response to the RFP and the Interrogatories. ERS and the Auditor shall enter into a Contract acceptable to ERS which shall include, but not be limited to, the Contractual Agreement identified in Appendix B.
- B.10.a. ERS reserves the right to reject any and all Proposals submitted that do not fully comply with the RFP's instructions and criteria, including minimum requirements for the GBP Audit RFP as reflected in Sections II.B.1. – II.B.4., and call for new Proposals if deemed by ERS to be in the best interests of ERS, the GBP health and welfare programs, its Participants and the state of Texas. ERS is under no legal requirement to execute a Contract on the basis of this RFP.
- B.10.b. ERS specifically reserves the right to revise any or all RFP or Contract provisions at any time prior to ERS' execution of a Contract where ERS deems it to be in the best interests of the ERS, GBP health and welfare programs, its Participants, and the state of Texas. Furthermore, the selected Auditor agrees to act in good faith and to cooperate with ERS in the execution of any document necessary to effect a change to the RFP or Contract, following execution of the Contract by ERS, if ERS deems it to be in the best interests of ERS, the GBP health and welfare programs, its Participants and the state of Texas.
- B.10.c. ERS reserves the right to modify the scope and performance requirements of the audit, including the GBP benefit plans to be audited during this RFP process or Contract term.
- B.10.d. The experience and professional qualifications of the project personnel are critical elements to the awarding of the project; therefore, substitutions of or other changes in assigned personnel shall require the prior approval of ERS' Executive Director. In any event, ERS may, at any time, request the removal or reassignment of Auditor's staff, or the staff of any subcontractor, in connection with Auditor's performance under this Contract.
- B.10.e. The Contract may be awarded to the Auditor that, in the opinion of ERS, is best qualified on the basis of offering to perform the specified services at best value to ERS, and based upon

the Auditor's demonstrated competence and qualifications as indicated in its Proposal to this RFP.

- B.11. **Costs incurred for Proposal preparation.** ERS shall not pay any costs incurred prior to execution of a Contract. Issuance of this RFP in no way obligates ERS to award a Contract or to pay any costs incurred in the preparation of an offer or Proposal.
- B.12. **Prohibited Interest.** Except as a Participant in the Program, a member, Board member, or employee of ERS may not have a direct or indirect interest in the gains or profits of any Contract executed by ERS pursuant to this RFP, and may not receive any payment or emolument for any service performed for the Auditor.
- B.12.a. In the case where a Board member or employee of ERS receives any payment from the Auditor for any services performed for the Auditor, for being awarded the Contract or for any gains or profits from any Contract executed by ERS pursuant to this RFP, ERS may terminate its relationship with the Auditor immediately, and ERS reserves the right to seek any legal, equitable or contractual relief to which it may be entitled. Under such circumstances, the Auditor shall complete any outstanding transactions with ERS as quickly as possible. In its discretion, ERS may choose not to consider any future Proposals from such Auditor.
- B.12.b. By submitting its Proposal, the Auditor warrants and represents that it does not have, nor shall it permit, any actual or perceived conflicts of interest that would impair its ability to perform the services required by the Contract in the best interests of ERS, GBP health and welfare programs, ERS' Participants and the state of Texas. The Contract shall have additional requirements in this regard.
- B.13. **HIPAA.** As a business associate of ERS, the Auditor shall comply with all privacy protections as provided in Tex. Health & Safety Code Ann. Chapter 181 (Vernon 2010) and in the "Privacy Rule" adopted pursuant to the federal Health Insurance Portability and Accountability Act of 1996 [Pub. L. No. 104-191], amended by the Health Information Technology for Economic and Clinical Health Act, as incorporated in the American Recovery and Reinvestment Act of 2009, and the implementing regulations issued and amended by the U.S. Department of Health and Human Services Secretary (45 C.F.R. Parts 160 and 164) (hereinafter referred to as "HIPAA").
- B.14. **Data Security and Breach Notification.** The Auditor is hereby notified that the execution of the Data Security and Breach Notification attached as Appendix D is a preferred submission requirement of this RFP. It includes additional duties and obligations the Auditor is required to provide or perform. ERS prefers that the Data Security and Breach Notification be signed and returned without amendments or revisions with the Proposal submission. However, if an Auditor in good faith determines that it does not agree with any provisions of the Data Security and Breach Notification in the form attached as Appendix D, the Auditor may elect not to return an executed Data Security and Breach Notification with its Proposal, but must instead submit deviations to the Data Security and Breach Notification's terms, which must be provided in accordance with Section VIII.A.10. of this RFP. Any such deviations will be considered by ERS; however, ERS will not be obligated to accept or agree to any such deviations, and ERS may determine in its sole discretion not to proceed with further negotiations with an Auditor based upon such deviations. To prevent any misunderstanding, while the Auditor's Proposal may be evaluated if returned with deviations, such deviations may themselves form a basis for ERS to conclude that the Auditor's Proposal will not be considered further beyond its initial evaluation. Any Auditor submitting a signed Data Security and Breach Notification with its Proposal shall have the Data Security and Breach Notification executed, in *blue ink*, by the duly authorized officer of the Auditor as reflected in Sections I.B.8. and VII.A.8.
- B.14.a. ERS reserves the right to reject any Proposal if the Data Security and Breach Notification is revised or returned unsigned, and ERS further retains the right to modify the Data Security and Breach Notification and to add additional terms at its discretion. Upon approval of the Proposal, notification to the Auditor of its selection by ERS and any clarifications to be required in the Proposal, and upon execution of the Data Security and Breach Notification by ERS, it is ERS' intent that the written Data Security and Breach Notification shall be in force.

- B.14.b. **Information and Data Security.** The Auditor shall comply with Privacy Act of 1974, Computer Matching and Privacy Protection Act of 1988, Texas Business and Commerce Code (“TBCC”) and information security standards as outlined in Title 1, Texas Administrative Code §202. Further, the Auditor shall comply with the forgoing regulations for the handling and use of personal identifying and sensitive personal information to mitigate the risk of identity theft and fraud as more fully outlined in Appendix D, *Data Security and Breach Notification*.
- B.14.c. Auditor shall utilize proven, industry-standard methods of ensuring the control and security of Participant and Program information.
- B.15. **Security Breach.** The Auditor shall comply with the Data Security and Breach Notification as attached hereto as Appendix D with regard to security breaches. In addition, the Auditor shall comply with the Business Associate Agreement (“BAA”) as attached hereto as Appendix C.
- B.16. **Mobile Devices.** All laptop computers, mobile devices and external storage devices which contain, process, or interact with ERS data shall be encrypted at rest. If ERS data is to be transmitted using a mobile device or laptop computer, the transmission shall be encrypted as well.
- B.17. **Business Associate Agreement.** The Auditor is hereby notified that the execution of the BAA attached as Appendix C is a preferred submission requirement of this RFP. It includes additional duties and obligations the Auditor is required to provide or perform. ERS prefers that the BAA be signed and returned without amendments or revisions with the Proposal submission. However, if an Auditor in good faith determines that it does not agree with any provisions of the BAA in the form attached as Appendix C, the Auditor may elect not to return an executed BAA with its Proposal, but must instead submit deviations to the BAA’s terms, which must be provided in accordance with Section VIII.A.9. of this RFP. Any such deviations will be considered by ERS; however, ERS will not be obligated to accept or agree to any such deviations, and ERS may determine in its sole discretion not to proceed with further negotiations with an Auditor based upon such deviations. To prevent any misunderstanding, while the Auditor’s Proposal may be evaluated if returned with deviations, such deviations may themselves form a basis for ERS to conclude that the Auditor’s Proposal will not be considered further beyond its initial evaluation. Any Auditor submitting a signed BAA with its Proposal shall have the BAA executed, in *blue ink*, by the duly authorized officer of the Auditor as reflected in Sections I.B.8. and VII.A.8.
- B.17.a. ERS reserves the right to reject any Proposal if the BAA is revised or returned unsigned, and ERS further retains the right to modify the BAA and to add additional terms at its discretion. Upon approval of the Proposal, notification to the Auditor of its selection by ERS and any clarifications to be required in the Proposal, and upon execution of the BAA by ERS, it is ERS’ intent that the written BAA shall be in force.
- B.18. **Nondisclosure Agreement.** The Auditor is hereby notified that execution of the Nondisclosure Agreement (“NDA”) attached as Appendix F is a preferred submission requirement of this RFP. It includes additional duties and obligations the Auditor is required to provide or perform. ERS prefers that the NDA be signed and returned without amendments or revisions with the Proposal submission. However, if an Auditor in good faith determines that it does not agree with any provisions of the NDA in the form attached as Appendix F, the Auditor may elect not to return an executed NDA with its Proposal, but must instead submit deviations to the NDA’s terms, which must be provided in accordance with Section VIII.A.12. of this RFP. Any such deviations will be considered by ERS; however, ERS will not be obligated to accept or agree to any such deviations, and ERS may determine in its sole discretion not to proceed with further negotiations with an Auditor based upon such deviations. To prevent any misunderstanding, while the Auditor’s Proposal may be evaluated if returned with deviations, such deviations may themselves form a basis for ERS to conclude that the Auditor’s Proposal will not be considered further beyond its initial evaluation. Any Auditor submitting a signed NDA with its Proposal shall have the NDA executed in *blue ink* by the duly authorized officer of the Auditor as reflected in Sections I.B.8. and VII.A.8.

ERS reserves the right to reject any Proposal if the NDA is revised or returned unsigned, and ERS further retains the right to modify the NDA and to add additional terms at its discretion. Upon approval of the Proposal, notification to the Auditor of its selection by the Board and any

clarifications to be required in the Proposal, and upon execution of the NDA by ERS, it is ERS' intent that the written NDA shall be in force.

B.19. **Contractual Agreement.** The Auditor is hereby notified that the execution of the Contractual Agreement ("Contract") attached as Appendix B, is a preferred submission requirement of this RFP. ERS prefers that the Contract be signed and returned without amendments or revisions with the Proposal submission. However, if an Auditor in good faith determines that it does not agree with any provisions of the Contract in the form attached as Appendix B, the Auditor may elect not to return an executed Contract with its Proposal, but must instead submit deviations to the Contract's terms, which must be provided in accordance with Section VIII.A.8.a. of this RFP. Although contract deviations are strongly discouraged, if deviations are submitted, they must include specific language rather than vage suggestions that certain provisions require discussion. Any such deviations will be considered by ERS; however, ERS will not be obligated to accept or agree to any such deviations, and ERS may determine in its sole discretion not to proceed with further negotiations with an Auditor based upon such deviations. To prevent any misunderstanding, while the Auditor's Proposal may be evaluated if returned with deviations, such deviations may themselves form a basis for ERS to conclude that the Auditor's Proposal will not be considered further beyond its initial evaluation. Any Auditor submitting a signed Contract with its Proposal shall have the Contract executed, in **blue ink**, by the duly authorized officer of the Auditor as reflected in Sections I.B.8. and VII.A.8.

B.19.a. ERS reserves the right to reject any Proposal if the Contractual Agreement is revised or returned unsigned, and ERS further retains the right to modify the Contractual Agreement terms and to add additional terms at its discretion. Upon approval of the Proposal, notification to the Auditor of its selection by ERS and any clarifications to be required in the Proposal, and upon execution of the Contractual Agreement by ERS, it is ERS' intent that the written Contract shall be in force.

B.20. **Contract Term and Chronology of Responsibility.** The Contract and all its aspects shall be for a term beginning upon ERS' execution of the Contract, which shall be after ERS has accepted the Auditor's Proposal and has notified the Auditor of its selection, and extending through the 31st day of August 2016 ("Initial Contract Term"), unless terminated, renewed or extended.

B.20.a. ERS and the Auditor also agree and acknowledge that there are duties and obligations specified by the Contractual Agreement to be performed prior to Contract execution and following August 31, 2016, and the parties each agree to perform all such duties and obligations, and all damage provisions included herein and in the Contractual Agreement shall thereby be in effect. Such prerequisites, duties and obligations include, but are not limited to, the following:

- Selection by ERS is anticipated on or after May 2013.
- Execution of a Contractual Agreement by ERS' Executive Director after all clarifications have been agreed to and accepted or rejected by ERS.
- The parties each agree to perform all such duties and obligations, and all damage provisions included in the Contractual Agreement shall be in effect.
- The Contract includes the RFP, the Contractual Agreement including all exhibits, and any other information, duties or obligations that Auditor may be required to provide or perform thereto as accepted by ERS and that does not conflict with terms of the Contractual Agreement executed by the parties, and the Auditor's Proposal. The Contract includes important requirements that may not be expressly referenced in the RFP.
- Any and all activities required by the Auditor to effectively implement the requirements of the Contract.

B.20.b. **Duties during the Initial Contract Term.** Following selection of an Auditor by ERS and upon ERS' execution of the Contract, the Auditor shall immediately staff an audit team and name a lead auditor. The names, positions and qualifications of the audit team shall be communicated to ERS no less than fifteen (15) business days from the award of the Contract.

During the Initial Contract Term, the Auditor warrants and represents the following:

- The Auditor shall maintain appropriate, sufficient and qualified staff, technical capabilities and resources that are fully devoted to the audit of the GBP Health and Welfare Programs. ERS reserves the right to require the Auditor to add additional staff or to remove staff from the Audit Team;

- The Auditor shall not permit any current or prospective business, projects or other matters to interfere in any manner with the smooth and timely audit of the GBP Health and Welfare Programs;
- The Auditor understands and agrees that time is of the essence in the performance of this Contract and in the audit of the GBP Health and Welfare Programs;
- To the extent the Liquidated Damages and/or Performance Guarantee provisions of the Contract require prior notice, the Auditor hereby waives such prior notice during the Contract Term; and
- ERS may immediately assess against the Auditor the agreed upon Liquidated Damages and/or *Performance Guarantees* as referenced in Appendix E or pursue other legal remedies available to ERS in the Contract, without prior notice, in the event the Auditor fails, refuses or if it reasonably appears that it will fail or refuse to complete or perform or will not be capable of completing or performing any aspect of the Contract in connection with the timely and smooth audit of the GBP Health and Welfare Programs.

- B.21. **Termination of Contract.** In the event that the Auditor fails or refuses to perform or it appears that the Auditor is not capable of performing any of its duties or obligations as required by the Contract, ERS, without limiting any other rights or remedies may have by law, equity or under Contract, shall have the right to terminate the Contract immediately. The Auditor understands and acknowledges that, notwithstanding any termination of the Contract, certain obligations of the Auditor shall survive the termination of the Contract. The Contract expands upon this provision.
- B.22. **Audit Period.** The Auditor shall provide auditing services for certain benefit programs administered by ERS for Participants of the GBP for benefits paid during the FY 2011 and FY2012 timeframe, herein referred to as the "Audit Period."
- B.23. **Liquidated Damages.** The Auditor acknowledges that it is impossible or impractical to estimate certain damages with any degree of certainty. Therefore, the Auditor understands and acknowledges that the Contract includes a liquidated damages provision that is in addition to any other remedies that ERS may have in the event the Auditor fails or refuses to perform, or it appears that the Auditor is not capable of performing, any obligation it may have in connection with the Contract to the satisfaction of ERS. The Contract has additional requirements in this regard.
- B.24. **Contract Completion.** To ensure the successful completion of the GBP Audit, the Auditor shall abide by the *Performance Guarantees* standards set forth in Appendix E.
- B.25. **Finalist Interview.** Following ERS' initial review of the RFP Proposals, if Auditor is selected as a finalist in the Auditor selection process, ERS may request that personnel from the Auditor, at the Auditor's expense, attend a meeting at an ERS-designated location to clarify the Auditor's Proposal and to answer questions regarding the Auditor's Proposal. If ERS deems necessary, a site visit to the Auditor may be conducted during the RFP review period at ERS' expense.
- B.26. **Public Information Act.** As reflected in greater detail in Sections I.B.27. – I.B.27.d. below, ERS is required to provide access to certain records in accordance with the provisions of Chapter 552, Tex. Gov't Code, the Texas Public Information Act ("PIA"), formerly known as the Open Records Act.
- B.26.a. During the evaluation process, ERS shall make reasonable efforts as allowed by law to maintain Proposals in confidence, and shall release Proposals only to personnel involved with the evaluation of the Proposals and during the Initial Contract Term unless otherwise required by law.
- B.26.b. However, ERS cannot prevent the disclosure of public documents and may be required by law to release documents the Auditor considers to be confidential and proprietary. By execution of the Signature Pages, as further referenced in Section I.B.8. above, the Auditor warrants and represents that all information that the Auditor in good faith considers to be properly excepted from disclosure under the PIA will be clearly labeled as confidential by the Auditor upon submission to ERS. The Auditor's signature further reflects that all documents submitted by the Auditor that are not marked "confidential" shall be considered to be public information. All public information in response to this RFP may be fully disclosed by ERS

without liability and without prior notice to or consent of the Auditor or any of the Auditor's subcontractors or agents.

- B.27. **Disclosure of Information.** In order to protect and prevent inadvertent access to confidential information submitted in support of its Proposal in accordance with the PIA as reflected in Sections I.B.26. - I.B.26.b. above, the Auditor is required to supply in good faith and with legally sufficient justification, a separate schedule of all pages considered by the Auditor to contain any confidential and/or proprietary information. The Auditor shall supply its confidential and/or proprietary information to ERS each time it submits information to ERS, whether in its initial Proposal or in any supplemental information submitted to ERS. The Auditor shall submit its confidential and proprietary information in accordance with the instructions given in Sections I.B.28. – I.B.28.a. below of this RFP.
- B.27.a. By submitting a Proposal, the Auditor acknowledges and agrees that ERS shall have no liability to the Auditor or to any other person or entity for disclosing information in accordance with the PIA. Furthermore, ERS shall have no obligation or duty to advocate the confidentiality of the Auditor's material to the Texas Attorney General, to a court, or to any other person or entity.
- B.27.b. The Auditor further understands and agrees that, upon ERS' receipt of a PIA request for the Auditor's information, the only information that ERS shall treat as the Auditor's confidential and proprietary information in accordance with the PIA shall be the documents the Auditor identifies as required above.
- B.27.c. It is the Auditor's sole obligation to advocate in good faith and with legally sufficient justification the confidential or proprietary nature of any information it provides to ERS. The Auditor acknowledges and understands that the Texas Attorney General may nonetheless determine that all or part of the claimed confidential or proprietary information shall be publicly disclosed.
- B.27.d. In addition, the Auditor specifically agrees that ERS may release the Auditor's information, including alleged confidential or proprietary information, upon request from individual members, agencies or committees of the Texas Legislature where needed for legislative purposes, as provided for in the PIA, or to any other person or entity as otherwise required by law.
- B.28. **Confidential and/or Proprietary Schedule – Public Information Submission.** In order to protect and prevent inadvertent access to confidential and/or proprietary information submitted in support of its Proposal, each Auditor submitting a Proposal to this RFP is required to supply four (4) CD-ROMs. The first two (2) CD-ROMs shall **only** contain copies of all information that the Auditor (in good faith, and with sufficient legal justification) considers to be its **confidential and/or proprietary information**. The second two (2) CD-ROMs shall **only** contain copies of all information that the Auditor considers to be its **public information**. The first two (2) CD-ROMs shall be labeled "**Confidential and/or Proprietary Information.**" The second two (2) CD-ROMs shall be labeled "**Public Information.**" The Auditor shall supply full and complete copies of all information it submits to ERS in this manner each time it submits information to ERS, whether in its initial Proposal or in any supplemental information submitted to ERS. Otherwise ERS will presume that all information submitted by the Auditor that does not comply with this directive is public information subject to disclosure. The documents reflected on the CD-ROMs shall correlate in order and by title to those reflected on the separate schedule required in Section I.B.27. above.
- B.28.a. Upon ERS' receipt of a PIA request, ERS will provide the requestor the information provided on the Auditor's public CD-ROM(s) under the applicable provisions above. If the Auditor fails to submit its confidential and/or proprietary information as outlined herein, ERS shall consider Auditor's information to be public, and it will, therefore, be released without notification to the Auditor upon receipt of a PIA request.
- B.29. **Historically Underutilized Businesses ("HUB").** ERS makes a good faith effort to assist HUBs in receiving agency contract awards. As appropriate, the Auditor shall provide the following information in the submitted Proposal materials:
- a. If Respondent is certified as a Texas HUB, please provide the TBPC VID/Certification Number.

- b. If an engagement is awarded and the Auditor plans to engage a subcontractor for all or any of the Contract services, the Auditor shall identify all proposed HUB subcontractors. The required forms with video instructions can be found at the following website:

<http://www.window.state.tx.us/procurement/prog/hub/hub-forms/>

- B.30. **Subcontractors.** Any planned or proposed use of subcontractors by the Auditor related to the management of or access to Program Participant data shall be clearly disclosed and documented in the Auditor's Proposal and shall not be accepted unless and until agreed to in writing prior to bid award by ERS. The Auditor shall be completely responsible for all services performed and for fulfillment of its obligations under the Contract, even if such services are delegated to a subcontractor.

The Auditor agrees that any and all subcontracts entered into by the Auditor for the purpose of meeting the requirements of the Contract are the responsibility of the Auditor. ERS will hold the Auditor responsible for assuring that subcontractors meet all of the requirements of the Contract and all amendments thereto. The Auditor shall provide complete information regarding each subcontractor used by the Auditor to meet the requirements of the Contract.

- B.30.a. The Auditor shall agree to accept the following administrative requirements:
- A qualified Auditor will be required to sign an ERS Contract;
  - The Auditor shall be solely responsible for all subcontracted activities in support of the services outlined in any executed agreement with ERS;
  - The Auditor and any subcontractor utilized to provide any services and in support of any subsequent Contract, shall be located within the United States for the duration of the contracted term; and
  - If an Auditor subcontracts any part of the outlined services, the subcontractor(s) are subject to review and acceptance by ERS throughout any contracted term.

- B.31. **Board Rules.** The Board has sole rulemaking authority in connection with the GBP pursuant to Chapter 1551, TIC. In the event of a conflict of laws or regulations, then ERS' interpretation of the applicability and controlling status of the law or rules shall control. The Board Rules are located at Title 34, Part 4, Tex. Admin. Code. The Board Rules, including any amendments, are a part of any Contract executed in accordance with this RFP process for all purposes as if they were contained verbatim herein. The Auditor agrees to comply with all such Board Rules, and all applicable federal and Texas laws and regulations.

- B.32. **No Solicitation.** An approved Auditor shall not use, or otherwise disseminate, copy, or make available to any person or entity, lists of Program Participants, beneficiaries or retirees, or any other Participant data to solicit any other insurance coverage, annuity products, or any other services or products, unless specifically approved in writing by ERS' authorized representatives in advance. This requirement shall survive the termination of the Contract. The Contract has additional requirements in this regard.

- B.33. **Audit Personnel Changes.** Substitutions or other changes in Auditor's personnel assigned during the term of this Contract shall be approved in advance by ERS. In any event, ERS may, at any time, request the removal or reassignment of Auditor's staff in connection with Auditor's performance under this Contract.

- B.34. **ERS Actuary.** ERS retains a consulting actuary, Rudd & Wisdom, Inc., to advise the Board, ERS staff and management on insurance and other financial matters related to the GBP. The consulting actuary also assists and advises the Board on benefit plan designs, application reviews, rating analysis, and certain audit related activities as described herein.

- B.35. **Fiscal Year.** The GBP Fiscal/Plan Year ("FY or PY") begins September 1st and ends August 31st. The Contract expands upon this provision.

## C. Operational Specifications

The Auditor shall provide all services specified in this RFP, including, but not limited to, the following:

- C.1. **Scope of Services.** The Auditor shall provide in its Proposal for review and approval by ERS, a detailed scope of services that will be performed during the audit, which shall include, but not be limited to, audit review, deliverables and timeframes.
- C.2. **Project Plan.** The Auditor shall provide in its Proposal for review and approval by ERS, a detailed proposed Project Plan, which shall include, without limitation, the following:
- A detailed description and manner in which all work is performed;
  - A detailed description of all activities the Auditor expects ERS and Vendors to perform related to the Project Plan;
  - Proposed schedule of entering into required Non-Disclosure Agreements with ERS and Vendors;
  - Proposed schedule of meetings between the Auditor and ERS;
  - Proposed schedule of meetings between the Auditor and Vendors; and
  - Proposed scheduled updates and/or amendments to the Project Plan, at least weekly, to reflect mutually agreed-upon changes as additional work is defined.
- C.3. **Project Plans and Timelines.** The Auditor shall develop and include in its Proposal, timelines for each audit as specified in Article IV of this RFP. ERS shall require the Auditor to exclusively utilize only those audit materials approved by ERS to guide and manage all audit activities and as deemed necessary by ERS for the successful delivery of services throughout the term of the Contract period. ERS and the Auditor shall work collaboratively to agree to timelines for periodic status reviews of each of the Plan(s). Any modifications to the audit and Project Plan(s) shall be by written agreement.
- C.3.a. The Project Plan for all audits for FY 2011, as determined by ERS, shall be completed no later than thirty (30) business days following contract award as such term is defined in the Contract or as further directed by ERS. Failure by the Auditor to adhere to such timeline may result in a monetary assessment per business day missed, as referenced in the *Performance Guarantees* in Appendix E, and/or other legal remedies available to ERS in the Contract.
- C.3.b. The Project Plan for all audits for FY 2012 shall be completed as directed by ERS. Failure by the Auditor to adhere to such timeline as directed by ERS may result in a monetary assessment per business day missed, as referenced in the *Performance Guarantees* in Appendix E, and/or other legal remedies available to ERS in the Contract.
- C.4. **Lead Auditor.** The Lead Auditor shall serve as ERS' primary contact throughout the Contract period and shall have the legal authority to make binding decisions for the Auditor, and be accessible to ERS seven (7) days a week and twenty-four (24) hours per day during the Contract period.
- C.5. **Audit Team.** No later than the fifteenth (15th) business day following ERS' selection, the Auditor shall provide to the Benefit Contracts' Assistant Director ("AD") or designee a thorough listing of the Audit Team contacts assigned to support the Auditor's Contract. The list shall identify an account "key point of contact" (Lead Auditor as mentioned above) responsible for the audit, coordination, and maintenance of the business relationship and continuity pertaining to all business matters in support of the Contractual Agreement.
- C.5.a. The Auditor shall provide a dedicated Audit Team to coordinate and expedite all Contract requirements as outlined and prioritized by the AD or designee of Benefit Contracts to ensure complete continuity, without exception, of all interactive Auditor functions, deliverables, and objectives prior to and during the Contract. At minimum, the Audit Team shall have a dedicated Lead Auditor and back-up Lead Auditor with availability to ERS staff throughout the Initial Contract Term. Should staffing adjustments or additional team members become necessary to support audit functions, the Auditor shall dedicate such appropriate staff as required by and acceptable to ERS. The Auditor shall provide brief summary resumes with its Proposal of the proposed Audit Team's points of contact for ERS.
- C.5.b. The Audit Team contact list should reflect key contact information (resume, experience, office, fax, and cell phone numbers, email and physical addresses) for each Audit Team

representative The Auditor shall ensure a smooth transition, without exception, of all ERS processes and requirements as follows:

- The Auditor shall inform, via email notification, the AD or designee of Benefit Contracts, in advance of any planned periods of unavailability by the Lead Auditor.
- In any instance where a Team “key point of contact” is not available to ERS, the Auditor shall immediately secure and provide details of alternate coverage sufficient to meet ERS expectations.
- Should staffing adjustments or additional team members become necessary to support the account functions, the Auditor shall dedicate such appropriate staff as required by and acceptable to ERS.

## 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 and their advisors shall also be important in the selection process. The criteria include the Auditor's response to all items reflected in its Proposal and any clarifications. The criteria also include:
- Compliance with and adherence to the RFP and Contractual Agreement;
  - Minimum requirements and Preferred criteria as reflected below;
  - Fee Proposal;
  - References; 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, GBP health and welfare programs, its Participants and the state of Texas.
- A.2.a. The selected Auditor 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 from the minimum requirements identified below shall not be considered, and submission of such may disqualify the Auditor'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 Auditor's response.
- B.1. The Auditor shall maintain its principal place of business and provide all services within the United States of America and shall have a current valid Certificate of Authority and/or license to do business as an Auditor in the state of Texas from the Secretary of State.
- B.1.a. The Auditor shall disclose where the Auditor's principal place of business is located and the location from which the Auditor's contracted services will be performed.
- B.2. The Auditor shall have documented experience of providing auditing services to at least (2) health plans one of which will have an enrollment of 50,000 covered employees working in multiple locations for a minimum of two (2) years.
- B.2.a. The Auditor shall provide a list of its top five (5) auditing clients.
- B.3. The Auditor shall have a net worth of at least \$250,000 as demonstrated by an audited financial statement as of the close of the Auditor's most recent fiscal year.
- B.3.a. If the Auditor is being financially supported by a sponsor or parent organization/entity, the Auditor shall submit its sponsor or parent organization/entity 2011 audited financial statement.
- B.4. The Auditor shall have experience working with and/or extensive knowledge of public or governmental health plans, similar to those offered by ERS that are not subject to ERISA.

## **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 Auditor's response.

- C.1. The Auditor should have provided auditing services for a public employee benefit program to include a minimum of 50,000 employees.
- C.2. The Auditor should also have experience working with and extensive knowledge of applicable Texas and federal laws and regulations affecting the GBP.
- C.3. The Auditor should have the capability to provide all reports electronically and in CD-ROM format.
- C.4. The GBP health and welfare Audit team should include at least one (1) team member with a valid state license in good standing as a Certified Public Accountant ("CPA").
- C.5. The Auditor should have experience working with and extensive knowledge of the management of Internal Revenue Service Section 125 plans.

## III. Audit Guidelines

### A. General Information

All audits will be conducted in compliance with Generally Accepted Auditing Standards. The Auditor shall be required to work closely with ERS staff in Austin, Texas and also shall be required to work predominantly in the claims offices of each Vendor. Many of the major on-site audit functions are anticipated to occur within the state of Texas. For example, BCBSTX claims office is located in Abilene or Dallas, Texas, Dearborn National is located in Richardson, Texas and both HMO Carriers are located in the Central Texas area. However, PayFlex Systems USA, Inc. ("PayFlex") is located in Omaha, Nebraska, and the GBP's dental programs, are administered by HumanaDental Insurance Company ("HumanaDental") whose claims office is located in De Pere, Wisconsin. Please note that ERS' consulting actuary may participate in the audit process at ERS' discretion.

- A.1. Although ERS does not audit each Vendor every year, ERS reserves the right to modify the Vendors selected for audit annually at ERS' sole discretion.
- A.1.a. The following FY 2011 GBP Audits are planned during FY 2013:
- BCBSTX;
  - Dearborn National formerly Fort Dearborn Life Insurance Company;
  - Health Maintenance Organizations;
  - HumanaDental PPO; and
  - PayFlex.

### B. Key Dates

Established key dates in connection with the FY11 and FY12 audits are as follows:

- May 2013 – Final selection of an Auditor by ERS;
- December 2013 – Final FY11 audit reports due to ERS; and
- December 2014 – Final FY12 audit reports due to ERS.

The Auditor will be requested in Sections IX.A.5. through IX.A.6.a. to propose methodology and timeframes to accomplish these audits by the deadlines stated above. Both concurrent and separate GBP program audits will be considered.

### C. Methodology and Scope

Audits will be conducted in accordance with the guidelines and individual Vendor audit scopes as defined in this RFP.

- C.1. The scope of each individual Vendor audit may be modified annually at ERS' sole discretion.
- C.2. The Auditor may present recommended scope modifications to ERS for any audit.
- C.3. As specified for each Vendor in Article IV., each audit measure shall include an analysis of Vendor performance as compared to:
- a. Contract standards,
  - b. Vendor internal standards,
  - c. Industry standards, and
  - d. Previous year audit results (if applicable).

Failure by the Auditor to include this comparison may result in a monetary assessment, per Vendor, as referenced in the *Performance Guarantees* in Appendix E, and/or other legal remedies available to ERS in the Contract.

- C.4. Prior to the start of an audit, the Auditor shall provide, for ERS' approval, an Audit Methodology Outline and Scope of Services document describing the standards to be applied for each Vendor, including an outline of respective plan design, contract performance standards and guarantees, pricing, and Vendor billing/reimbursement methodology. If an

audit is commenced prior to ERS' approval of this document, it may result in a monetary assessment as referenced in the *Performance Guarantees* in Appendix E, and/or other legal remedies available to ERS in the Contract.

- C.4.a. If ERS determines that an audit was not conducted in accordance with the approved Audit Methodology Outline and Scope of Services, the Auditor shall:
- Complete a subsequent audit utilizing the correct methodology within sixty (60) calendar days, at no cost to ERS; and
  - Be subject to a monetary assessment as referenced in the *Performance Guarantees* in Appendix E, to be applied at ERS' discretion, or other legal remedies available to ERS in the Contract.
  - Failure to complete the subsequent audit within sixty (60) calendar days following ERS' approval of the Methodology Outline and Scope of Services may result in an additional monetary assessment as referenced in the *Performance Guarantees* in Appendix E, and/or other legal remedies available to ERS in the Contract.
- C.5. The Auditor shall notify ERS' Assistant Director of Benefit Contracts iwithin two (2) business days via email upon any disagreement at any time between the Auditor and Vendor with regard to the audit methodology. Failure to notify ERS of such a disagreement may result in a monetary assessment as referenced in the *Performance Guarantees* in Appendix E, and/or other legal remedies available to ERS in the Contract. ERS retains the exclusive right to make the final determination.
- C.6. In the event of a disagreement between the Auditor and Vendor regarding whether an audit finding will be considered an error for purposes of calculating audit results, ERS retains the exclusive right to make the final determination.
- C.6.a. The Auditor shall ensure that all disputes with regard to error determinations are resolved prior to preparing the draft report. Failure to obtain final determination from ERS regarding any disputed errors prior to submitting the initial draft report to ERS may result in a monetary assessment as referenced in the *Performance Guarantees* in Appendix E, and/or other legal remedies available to ERS in the Contract.
- C.7. The Auditor shall provide each Vendor with a copy of the draft report and any exhibits as soon as it is available and provide the Vendor with sufficient time to provide a response.
- C.8. Audits shall not encompass a review of financial statements provided by the Vendor, or an audit of the vendor's accounting records. However, some review of official records shall be required to ensure that the data used to develop the annual accounting statements are supported by generally accepted accounting principles and records.
- C.9. The Auditor shall utilize an Administrative Questionnaire to be completed by each Vendor prior to the on-site visit, and shall provide copies of all Questionnaire responses to ERS throughout the Initial Contract Term, in addition to providing final copies with the initial draft report.
- C.10. Each audit shall include an analysis of Vendor progress related to prior year audit recommendations (if applicable).

## **D. Audit Sample**

Each audit shall be based on a statistically valid, random claim sample extracted by the Auditor from a Vendor file (or files) representing 100% of processed claims for the period being audited. At ERS' discretion, ERS' consulting actuary may confirm reasonableness and/or provide stratification of the extracted sample.

- D.1. Prior to extracting the claim audit sample, the Auditor shall provide ERS with a copy of a written statement from each audited Vendor indicating the Vendor's concurrence with the 100% claim file to be utilized as the basis of obtaining the audit sample. If audit activities commence prior to ERS' receipt of the Vendor's statement, and/or without ERS' consulting actuary's confirmation (if applicable), it may result in a monetary assessment as referenced in *Performance Guarantees* in Appendix E, and/or other legal remedies available to ERS in the Contract.

- D.1.a. The Auditor shall notify ERS in writing within two (2) business days upon any disagreement at any time between the Auditor and Vendor with regard to the validity of the claim file or audit sample. Failure to notify ERS may result in a monetary assessment as referenced in the *Performance Guarantees* in Appendix E, and/or other legal remedies available to ERS in the Contract. ERS retains the exclusive right to make the final determination.

## E. Reporting

The Auditor will provide a separate report to ERS and to ERS' consulting actuary, as requested by ERS, for each audited Vendor, and an Executive Summary that outlines the results for each audited Vendor. The Auditor shall provide a copy of their sample outline report of the Executive Summary and detail findings report with the Proposal.

- E.1. **Quality Control.** The Auditor shall ensure that all materials reflect finished quality production, accuracy, timeliness, thorough review, and shall be submitted to ERS in a production-ready format, reflecting adequate proofreading and editing for correct grammar, spelling, punctuation, and formatting. All required reports (to include all *ad hoc* reports), and dated materials shall at the minimum, require, but not be limited to, the following criteria:
- Reflect and reference the appropriate Plan Year;
  - Reflect and reference accurate data related exclusively to the GBP, unless otherwise specified by ERS;
  - Reflect GBP-specific language;
  - Be provided within the required timelines as directed by ERS staff and/or its consultants;
  - Not be released to outside sources without prior ERS written consent; and
  - No confidential information will be contained in any report without the express permission of ERS' Assistant Director or designee of Benefit Contracts.

The Auditor's failure to adhere to the above quality production standards and/or any other communication requirements as referenced herein may result in a monetary assessment as referenced in the *Performance Guarantees* in Appendix E, and/or other legal remedies available to ERS in the Contract.

- E.2. **Vendor Audit Reports - Required Elements.** Minimum elements to be included within each Vendor report for each audit measure as required by ERS approved audit scope are:

An overview, analysis, conclusion, and recommendations (if applicable) for each audit measure that illustrates Vendor performance as compared to:

- a. Contract standards and performance guarantees;
- b. Vendor internal standards;
- c. Industry standards;
- d. Previous year audit results (if applicable); and
- e. Vendor response including agreements with or acceptance of findings.

- E.2.a. Failure to include this analysis may result in a monetary assessment as referenced in the *Performance Guarantees* in Appendix E, and/or other legal remedies available to ERS in the Contract.

- i. The error incidence, rate, dollar value (if applicable), and the Auditor's opinion of root causes for audit measures related to claim payments.
- ii. The error incidence (if applicable), and/or adverse findings, and the Auditor's opinion of root causes for audit measures not related to claim payments.
- iii. Vendor's "word-for-word" response, if provided. Vendor responses indicating a disputed error must be resolved prior to inclusion in the audit report. Any instances where the Auditor and the Vendor disagree on a particular error, and that ERS has approved for inclusion in the report, shall be clearly noted as such in the Final Report.
- iv. The Auditor's reply to Vendor response, (if applicable).

- E.3. **Executive Summary – Required Elements.** The Executive Summary shall include summarized results related to all contractual or performance guarantee measures. Failure to provide the results related to these measures in the Executive Summary may result in a monetary assessment as referenced in the *Performance Guarantees* in Appendix E, and/or other legal remedies available to ERS in the Contract.

- E.4. **Production of Final Reports.** Upon ERS' written approval of the final reports and Executive Summary, the Auditor shall provide ERS with eleven (11) copies of the Executive Summary and six (6) full copies of the final reports which contains the following:
- Table of Contents;
  - Executive Summary, outlining each Vendor audit;
  - Individual Vendor audit reports with Vendor responses; and
  - Exhibits necessary to illustrate the audit results.
- E.4.a. The Auditor shall also provide ERS with one (1) CD-ROM containing the electronic version of all documents included in the audit report binders, the Vendor Administrative Questionnaires, and any other relevant documents.

## IV. GBP Health and Welfare Audit Scope of Services

The purpose of this audit is to evaluate selected Carriers, HMOs, Medicare Advantage HMOs and PPOs, and third-party administrators of HealthSelect and GBP Programs, which may include, but not be limited to, life, health, dental and medical benefit programs for Fiscal Year 2011 and Fiscal Year 2012. The areas to be reviewed shall include the following:

### A. **BlueCross BlueShield of Texas Audit (Administrator of HealthSelect Self-Funded Medical Program):**

Each audit measure of the BlueCross BlueShield of Texas ("BCBSTX") Medical Component audit shall include an analysis of the Vendor's performance as compared to:

1. Contract standards;
2. Vendor internal standards;
3. Industry standards; and
4. Previous year audit results (if applicable).

#### **Accuracy Audit**

- A.1. A review shall be performed to verify the accuracy of HealthSelect claims processing and payment. Claims should be tested for accuracy in three (3) areas:
- Payment accuracy which measures the percentage of claims that were paid accurately;
  - Procedural accuracy which measures the percentage of claims that were processed correctly based on an analysis of coding accuracy; and
  - Financial accuracy which measures the financial impact of payment errors. The measure of financial accuracy is used by the Auditor to project the audited value of claims for the total population.

The accuracy audit of HealthSelect claims processed shall be conducted as follows:

- A.1.a. Two (2) statistically valid stratified random samples of health claims shall be selected and tested from the population of claims processed during the fiscal year. The total sample shall be comprised of 1,200 health claims. A sample of 500 claims is to be selected from network health claims and a second sample of 700 claims is to be selected from non-network and out-of-area health claims.
- A.1.b. The samples enumerated above shall be selected using a stratified random sampling methodology determined in consultation with, and approved by, ERS. The stratified random samples of health claims shall be selected based on allocations of the samples to ranges (strata) by claim amount. In recent audits, ERS has required approximately fifteen (15) strata for each of these two (2) stratified random samples. The consulting actuary shall determine the numbers and ranges included in each strata and the number of claims selected per strata. Samples shall be designed to achieve 95% confidence intervals of dollar error rates with precision of at least 1.5%.
- A.1.c. Samples may be extracted as defined herein.
- A.2. Each claim in the sample is to be tested for payment and coding accuracy, adherence to plan benefits and administration procedures, and timeliness. Each claim is to be re-adjudicated for financial and procedural accuracy. In addition to any other procedures considered necessary by the selected Auditor to determine payment and coding accuracy, elements tested for each claim shall include, but not be limited to, confirmation of the following:
- A.2.a. Claim was submitted within the specified time as defined by the plan.
- A.2.b. Managed care discounts and contractual provisions were applied correctly.
- A.2.c. Procedures that were billed and paid were covered by the plan.
- A.2.d. Procedures were medically necessary and appropriate according to BCBSTX medical review.

- A.2.e. Claims for multiple procedures, bilateral procedures, unbundled services, and experimental services were submitted to the appropriate levels for review and adjudicated correctly.
- A.2.f. Benefit coordination, including coordination with Medicare and subrogation, were accurately determined if the claimant had other coverage available and recoveries were properly pursued when appropriate.
- A.2.g. Correct claimant or assignee received payment.
- A.2.h. Benefits were applied in accordance with plan requirements.
- A.2.i. Mathematical computations and the application of coinsurance, out-of-pocket limits, and deductibles were accurate.
- A.2.j. Allowable charge limitations of the plan were correctly applied.
- A.2.k. Preauthorization, second surgical opinion, and ambulatory procedures were followed and documented, when appropriate.
- A.2.l. Claim payment response time met contractual provisions and was consistent with generally accepted industry standards.
- A.2.m. Claim was properly coded and reflects the supporting documentation submitted by the claimant or the provider of services and was properly authorized for payment.
- A.2.n. Claim was properly reconciled with other claims for that individual with the same dates of service to ensure appropriate payment with all claims related to the date of service.
- A.2.o. Claim was paid only once, i.e., the claim payment is not a duplicate payment.
- A.2.p. Participant's specific health coverage on BCBSTX's records was consistent with the health coverage indicated on ERS' records and the claimant was eligible for HealthSelect benefits on the date(s) of service.
- A.2.q. Review of J-Code use by contracting providers to investigate suspicious coding practices.
- A.2.r. Review of Applied Behavioral Analysis ("ABA") claims to validate accuracy of coding and adherence to plan design.
- A.3. Upon completion of the audit of the sample claims, the Auditor shall prepare the following:
  - A.3.a. An analysis of payment and denial errors by type of error to indicate the error types occurring most frequently and the dollar amounts associated with each error type. Analysis shall distinguish over, under, and erroneous payments.
  - A.3.b. An estimate of the correct value of the benefits compared to the actual disbursed benefits that should have been paid during the review period.
- A.4. The Auditor shall conduct an analysis of overpayments and make recommendations for reducing overpayments. The analysis shall include:
  - A.4.a. Preparation of a summary of overpayments/underpayments occurring on claims included in the audited sample by type of overpayment (hospital, provider, or member), rate of collection of overpayment by type, total dollar amount of overpayments, total dollar amount of refunds collected, and summary of reasons for overpayments.
  - A.4.b. A review of overpayments identified during the previous year's audit to confirm that the overpayments had been recovered and credited to ERS.
  - A.4.c. A review of overpayments identified and recovered by BCBSTX during the fiscal year.
  - A.4.d. A review of BCBSTX overpayment/underpayment processing controls.

- A.4.e. A review of BCBSTX's overpayment/underpayment pricing controls.
- A.4.f. A test of the processing methods for identifying and capturing Medicare Part D claims data on behalf of HealthSelect.

### **Timeliness Audit**

- A.5. The Auditor shall generate turnaround time statistics for the total claims population to determine whether claims were processed within the time frame specified in BCBSTX's Contractual Agreement for third-party administrator services with ERS which states: "...BCBSTX will process claims in accordance with the following standards:
  - A.5.a. 98% of claims ("clean claims") will be processed within thirty (30) calendar days."
- A.6. The Auditor shall supply an analysis of BCBSTX's compliance with ERS' requirement to send Identification ("ID") Cards to all newly enrolled members, including dependents.

### **Operational Audit**

- A.7. The Auditor shall verify that BCBSTX's processing time, from the date an addition, termination, or change of coverage is initiated at the agency level, is in accordance with ERS processing standards.
- A.8. The Auditor shall review BCBSTX's claims processing and identify areas of administration which, if changed or corrected, could result in cost savings to the GBP.
- A.9. The Auditor shall verify that an adequate system is used for determining the medical necessity of the claims submitted.
- A.10. The Auditor shall verify that adequate training procedures are used by BCBSTX to ensure that all personnel are appropriately trained in claims processing and customer service.
- A.11. The Auditor shall verify that BCBSTX conducts background checks on their personnel.
- A.12. The Auditor shall verify that BCBSTX has an adequate system of program edits and claims processing procedures in place to monitor and discover fraud and abuse.
- A.13. The Auditor shall review the grievance and appeal process, including the number of grievances which are referred to the administrator's Medical Division for additional review, the number of those referred which result in additional payment, and the percentage of each of these to the total number of grievance appeals processed. The review shall also include identification of grievance rights issued in error.
- A.14. The Auditor shall perform a review of the allowable charge procedures utilized by BCBSTX in the claims payment process to ensure that the allowable amounts are properly developed and updated and are properly utilized to reduce billed charges under HealthSelect. The review shall also include procedures utilized by BCBSTX on claims that require manual pricing.
- A.15. The Auditor shall perform a review of the imaged records, microfilm copies and source documents, if available, to see if there is any indication of fraud.
- A.16. The Auditor shall compare previous years' audit recommendations to current year audit results.
- A.17. The Auditor shall review and ensure that transitional benefits are paid in accordance with the policies and procedures of HealthSelect.
- A.18. The Auditor shall review BCBSTX's most recent Statement of Standards for Attestation Engagements ("SSAE16"), SAS 70 report (if applicable), or the organization's equivalent document and provide an opinion regarding the validity/presence of such controls.
- A.19. The Auditor shall verify and include in the Final Report BCBSTX's Fidelity and Liability bond coverage amount and their A.M. Best rating.

- A.20. The Auditor shall review HealthSelect weekly claims invoices to verify the accuracy and appropriateness of claims payments. The Auditor shall compare monthly paid claim amounts with total monthly billed amounts from the invoices and against the annual accounting statements for the fiscal year. The evaluation shall be sufficient to ensure that claims payments, administrative fee payments, ERS reimbursements and all other information on the reports are accurately reported and charged or related to the appropriate fiscal years. The review shall also determine whether or not any applicable discounts, recoveries or refunds received by BCBSTX as the administrator from providers were credited to the experience of the HealthSelect plan.
- A.21. The Auditor shall verify and review BCBSTX's coordination of benefits for Medicare Part B to ensure that HealthSelect is paying secondary for Medicare Part B eligible Participants.

## **B. Dearborn National Life Insurance Company Audit**

The audit services to be performed on Dearborn National Life Insurance Company ("DN") formerly known as Dearborn National and Fort Dearborn Life Insurance Company shall consist of a review of the short-term disability insurance ("STD") and long-term disability insurance ("LTD") claims processed and paid by DN. The Auditor shall conduct certain tests regarding STD and LTD claims processed by DN to ensure that these claims are paid in accordance with the appropriate contracts and plan documents. The Audit Methodology and testing requirements as listed below in Sections IV.B.2. and IV.B.3. shall be applied to all DN audits.

Each audit measure shall include an analysis of Vendor performance as compared to:

1. Contract standards;
2. Vendor internal standards;
3. Industry standards; and
4. Previous year audit results (if applicable).

### **Accuracy Audit**

- B.1. The Auditor shall review weekly claims invoices to verify the accuracy and appropriateness of all claim payments for the DN products listed above. The Auditor shall review and verify the accuracy and appropriateness of the annual accounting statements. The evaluation shall be sufficient to ensure that claim payments, premiums, ERS reimbursements, reserves, conversion charges, administrative fee payments, and all other information on the reports are accurately reported and charged or related to the appropriate fiscal years.
- B.2. **Audit Methodology.** The Auditor shall test randomly sampled claims and review all claim documentation for payment and processing accuracy. The following elements shall be tested for each claim:
- Legitimacy of submission;
  - Verification of eligibility;
  - Correct application of benefit provisions;
  - Offset of benefits;
  - Elimination (waiting) period;
  - Disbursement to correct party or appropriate denial; and
  - Disbursement from correct account.
- B.3. **Audit Test.** The Auditor shall evaluate each sample claim for payment accuracy for the following elements:
- Was the claimant eligible for benefits?
  - Did the correct claimant or assignee receive payment? Was the method of payment correct?
  - Were benefits applied in accordance with the plan requirements?
  - Were the mathematical computations accurate?
  - Were filing limits considered correctly?
  - Was there any evidence of duplicate payments?
  - Did the claim payment response time meet contractual provisions?

**Short Term Disability Insurance and Long Term Disability Insurance.** The services required for the management of STD and LTD claims shall include:

- B.4. A representative random sample of 50 STD processed claims.
- B.4.a. Representative random samples of:
  - (a) 50 LTD claims first processed during the applicable fiscal year; and
  - (b) 50 LTD claims open as of August 31 of that same fiscal year and initially processed in prior fiscal years.
- B.4.b. LTD claims shall be further reviewed to assess:
  - (a) subsequent reviews of continued disability; and
  - (b) re-evaluation of disability status when the definition changes at twenty-four (24) months.
- B.4.c. Evaluate each sample claim for payment accuracy. For disability payments, each periodic payment during the fiscal year, not just the initial payment, shall be measured to ensure correct payment decisions.

#### **Timeliness Audit**

- B.5. Confirm compliance with the timeliness and accuracy standards set out in the Contractual Agreement for third-party administrator services, if applicable. Each sample claim shall be reviewed to assess the time required to complete the processing as follows:
  - From receipt of initial claim document to claim payment or denial.
  - From receipt of initial claim document to request for remaining material.
  - From receipt of remaining material to payment or denial.

#### **Operational Audit**

- B.6. Review policies and procedures and evaluate the appropriateness of the policies and procedures for effective claim processing as follows:
  - B.6.a. Review procedures regarding required documentation to ensure that all appropriate/required documents are obtained and that unnecessary items are not requested.
  - B.6.b. Review policies and procedures regarding communications with beneficiaries, insureds, ERS, state agencies and higher education institutions, and providers to determine that such contact is appropriate, protects an individual's rights and is performed in a courteous, professional manner.
  - B.6.c. Review procedures for determining disability based on the individual's condition and job requirements to assess appropriateness of procedures and measurement criteria.
  - B.6.d. Review procedures for subsequent review of disability to assess the effectiveness of the procedures in identifying the appropriateness of measurement criteria.
  - B.6.e. Review policies and procedures regarding Social Security disability filing to assess the degree to which DN works to reduce ERS liability through Social Security benefit awards.
  - B.6.f. Review policies and procedures regarding disability re-evaluation after twenty-four (24) months at which point the definition of total disability changes to ensure that appropriate documentation and appropriate measurement criteria are used.
- B.7. Verify that DN follows its procedures with respect to the identification of potential areas of claims abuse; i.e., fraudulent claims and duplicate claims.
  - B.7.a. Verify that an adequate system of program edits and claims processing procedures for disability benefits are in place to monitor and discover fraud and abuse.
  - B.7.b. The audit shall summarize areas of claims administration which, if changed or corrected, could result in cost savings to the GBP.
- B.8. Review DN's Customer Service processes, including the handling of complaints, appeals, and grievances. To include:

- B.8.a. Grievance rights that were issued in error; and errors in citing incorrect, MBPD references including appropriate denial reason and contract year.
- B.9. Verify that DN conducts background checks on their personnel.
- B.10. Verify that DN has acceptable written procedures.
- B.11. Review DN's most recent SSAE16, SAS 70 report (if applicable), or the organization's equivalent document.
- B.12. Verify and include in Final Report DN's Fidelity and Liability bond coverage amount and their A.M. Best rating.

### **C. Health Maintenance Organization Audit**

The particular HMO selected for audit shall be determined by ERS post contract award. Services and each audit measure required for the HMO's audit shall include an analysis of Vendor performance as compared to:

1. Contract standards;
2. Vendor internal standards;
3. Industry standards; and
4. Previous year audit results (if applicable).

#### **Timeliness Audit**

- C.1. The Auditor shall verify the HMO's compliance with the HMO's own internal standards.

#### **Operational Audit**

- C.2. The Auditor shall verify that an adequate system of internal audit and claims processing controls are used by the HMO to ensure the validity and contractually correct processing and payment of health and pharmacy claims.
- C.3. The Auditor shall review and confirm that adequate fraud detection processes are in place.
- C.4. Verify that the HMO recommends the election of Medicare Part B to GBP Participants in its member communication materials, as payment of benefits is made to eligible Participants.
- C.5. The Auditor shall review the HMO's Customer Service processes, including the handling of complaints and appeals.
- C.6. The Auditor shall conduct a walk-through tour of the Vendor's claim processing operations. The Auditor shall conduct a facility tour to observe technology and procedures observed applicable to standard industry practices as related to the information reflected in the administrative questionnaire and other reports.
- C.7. The Auditor shall test and verify the processing methods for identifying eligibility for Medicare Subsidy Participants and capturing current Medicare Part D medications as identified by the Center for Medicare and Medicaid Services ("CMS") on behalf of the GBP.
- C.8. The Auditor shall review Participant specific coverage on HMO's records compared to the coverage indicated on ERS' records. Verify that the claimant is an eligible state or higher education employee, retiree or other qualified participant and was covered by HMO at the time the claim was incurred.

### **D. PayFlex Systems USA, Inc. Audit**

Services and each audit measure required for the TexFlex audit shall include an analysis of Vendor performance as compared to:

1. Contract standards;

2. Vendor internal standards;
3. Industry standards; and
4. Previous year audit results (if applicable).

### **Accuracy Audit**

- D.1. **Audit Methodology.** The Auditor shall select a random sample of 500 claims, to be comprised of paper, web-based and debit card claims. The claims to be tested shall be selected from the ERS Fiscal Year population of claims processed from September 1 through December 31, which includes the run-out period. The samples shall be stratified by health and dependent care claims, maintaining the proportion of the total number of health and dependent care claims filed.
- D.2. **Audit Test.** Each sampled record shall be tested as if the claim was being fully adjudicated, checking all procedures applied during the adjudication process for payment and procedural errors.
- Was claim submission legitimate and was all supporting expense documentation received?
  - Was the participant eligible for flexible benefit reimbursement on the date(s) of service?
  - Was the supporting claim submitted within the specified time as defined by the plan?
  - Were the expenses covered, billed and paid, and were expenses eligible health care and/or dependent care expenses?
  - Did the claim contain all required information and was it entered properly in the system?
  - Were benefits applied in accordance with plan requirements?
  - Were the correct transaction fees, if any, applied?
  - Were payments within Participant's annual election limits?
  - Did the correct Participant receive payment?
  - Was payment disbursed from the correct account?
  - Were adjustments to debit card transaction expenses accurate?
  - Was the claim paid only once?
  - Was the claim paid in a timely manner?

### **Operational Audit**

- D.3. During the operational review, a specific focus shall be placed on the following:
- D.3.a. Review of call center activity for courteous and consistent assistance;
- D.3.b. Review of fax receipt process to identify process points where faxes may be lost or be perceived to be lost by the participant; and
- D.3.c. Review process for sending letters to Participants regarding qualifying or not qualifying expenses.
- D.4. The audit shall summarize areas of claims administration which, if changed or corrected, could result in cost savings to the GBP.
- D.5. Verify that PayFlex conducts background checks on their personnel.
- D.6. Verify program fees are collected appropriately.
- D.7. Verify daily ledgersmatch payments received from ERS.
- D.8. Verify that IIAS information has been thoroughly programmed into the Vendor's adjudication system and that claims are being adjudicated accurately.
- D.9. Review PayFlex's most recent SSAE16, SAS 70 report (if applicable), or the organization's equivalent document.
- D.10. Verify and include in Final Report PayFlex's Fidelity and Liability bond coverage amounts.

## **E. HumanaDental Insurance Company Audit – (Administrator of Self-Funded Dental Program)**

The services to be performed shall consist of a review of the dental claims payments and processing procedures used by HumanaDental. The services required for the HumanaDental Indemnity audit shall include, but not be limited to, the following:

Each audit measure shall include an analysis of Vendor performance as compared to:

1. Contract standards;
2. Vendor internal standards;
3. Industry standards; and
4. Previous year audit results (if applicable).

### **Accuracy Audit**

E.1. A representative random sample of 200 dental claims.

E.1.a. **Audit Test.** Sample records shall be tested as if the claim was being fully adjudicated, checking all procedures applied during the adjudication process for payment and procedural errors.

- Was the paper submission an unaltered original? Did it contain all required information to process the claim?
- Was the claimant eligible for dental benefits on the date(s) of service?
- Was the claim submitted within the specified time as defined by the plan?
- Were managed care discounts, if applicable, and contractual provisions applied correctly?
- Were the procedures covered, billed and paid, and were procedures medically necessary and appropriate according to HumanaDental medical review?
- Were benefit coordination and subrogation accurately determined if the claimant had other coverage available?
- Did the correct claimant or assignee receive payment?
- Did the claim contain all required information and was it coded properly in the claim processing system?
- Were benefits applied in accordance with plan requirements?
- Were the mathematical computations and the application of copayments, out-of-pocket limits, and deductibles accurate?
- Were allowable charge limitations of the plan correctly applied?
- Was the claim paid only once?

E.1.b. The review shall also determine the status of refunds due to the plan as a result of audits of dental charges.

### **Timeliness Audit**

E.2. The Auditor shall supply an analysis of HumanaDental's compliance with the requirement to send ID Cards to all newly enrolled members, including dependents, as required by ERS.

### **Operational Audit**

E.3. The Auditor shall conduct a facility tour to observe technology and procedures applicable to standard industry practices.

E.4. Verify that an adequate system of program edits and claims processing procedures for dental benefits are in place to monitor and discover fraud and abuse.

E.5. An analysis of HumanaDental's administration of the complaint and appeal process, including the number of complaints which are referred for additional review; the number of those referred which result in additional payment; the percentage of these to the total number of grievances processed.

E.6. The audit shall summarize areas of claims administration which, if changed or corrected, could result in cost savings to the GBP.

- E.7. Verify that HumanaDental conducts background checks on their personnel.
- E.8. Review HumanaDental's most recent SSAE16, SAS 70 report (if applicable), or the organization's equivalent document.

**F. Humana Dental Insurance Company Audit – (Administrator of Dental Health Maintenance Organization)**

The services to be performed shall consist of a review of the dental claims payments and processing procedures used by HumanaDental. The services required for the HumanaDental DHMO audit shall include, but not be limited to, the following:

Each audit measure shall include an analysis of Vendor performance as compared to:

1. Contract standards;
2. Vendor internal standards;
3. Industry standards; and
4. Previous year audit results (if applicable).

**Operational Audit**

- F.1. The Auditor shall review the process for distribution of capitation payments to providers. Test should include verification of correct capitation amount assigned to the provider, that checks are produced to match amount due on roster and that payments are made timely. Review 50 Primary Care Dentist ("PCD") rosters and payments.
- F.2. Review process of paying supplemental compensation to the providers including required documentation used to support the payments. Review 25 supplemental payments along with documented support of each payment.
- F.3. The Auditor shall review and confirm that adequate fraud detection processes are in place.
- F.4. Review total compensation paid to dentists in all forms and match payments to premium development. In accordance with their RFP Proposal, HumanaDental should retain only 13% of premiums for its administrative profit.
- F.5. Determine how many enrolled Participants have not selected a PCD as of August 31.
- F.6. Review and comment on procedures to establish a PCD for each member.

## V. Information to be provided to Auditor

Following ERS' selection of a qualified Auditor to conduct the GBP audit, the information reflected below will be provided to the Auditor or the Auditor's designee:

- A. ERS will provide eligibility information by Vendor via secure file transfer protocol ("SFTP") or any other encrypted transmission protocols.
- B. Claim detail by Vendor to include: Computer files with attached record descriptions of all claims processed by BlueCross BlueShield of Texas ("BCBSTX") beginning FY 2011 through FY 2012. Network, non-network, and out-of-area claims for BCBSTX are uniquely coded so that they are readily identifiable.
- C. Annual Statistical Reports produced by Vendor to include: A copy of the annual accounting report for Contract 38000-A Disability Income plan.
- D. A copy of the most recent GBP health and welfare audits.
- E. A schedule of claim reimbursements and administrative fee payments made to BCBSTX.
- F. Copies of Vendor Contracts and Directives as appropriate to the specific scopes identified by ERS.
- G. Copies of the Master Benefit Plan Documents ("MBPD") as appropriate to the specific scopes identified by ERS, and each HMO's/DHMO's Evidence of Coverage ("EOC").
- H. Copies of benefits books.
- I. Monthly Financial Reports.
- J. Copies of claim invoices paid to Vendors by ERS.
- K. Copies of ERS' payments to the Flexible Spending Account administrator.
- L. Other information as identified during the audit process.

## VI. Financial Specifications and Fee Proposal

This Article describes the requirements for the submission of proposed fees for the GBP Audit. An interested Auditor shall ensure that it submits its proposed fair and reasonable fees for the auditing services in accordance with this Section. Fees must be guaranteed to not be more than those proposed. The Auditor shall complete Section VI.B.1.b., under *Fees*, and return it with their Proposal.

### A. Financial Specifications

- A.1. **Payment Methodology.** The selected Auditor shall submit itemized payment invoices to ERS on a monthly basis that only include completed work. ERS will withhold 10% of the annual total audit amount from the first invoice submitted (or subsequent invoices, if necessary, to equal 10% of the annual total annual audit amount) submitted. The 10% withheld shall reflect the total annual amount of each of the GBP audits, and 10% will be withheld from each such audit that the Auditor is performing.
- A.1.a. ERS will make payment(s) within thirty (30) days from the date it receives a satisfactory and itemized invoice. The invoice will not be deemed satisfactory if it does not reflect work performed to standards acceptable to ERS. ERS will not pay more than the agreed fees described in Article VI and accepted by ERS.
- A.1.b. If it is determined that the work and/or cost is less than the proposed fees, the selected Auditor agrees to adjust its fees accordingly.
- A.1.c. Final payment, including the previously withheld retention of 10%, will, for that audit year, be made only after ERS approves and accepts the Final Report.
- A.2. Prior to the time that the Auditor begins to perform work on any particular audit, ERS will provide the Auditor with a list of issues/items relating to that audit that are already known to ERS, whether identified in previous audits or that ERS is otherwise aware of, and the Auditor acknowledges and agrees that no such issues shall be considered in the calculation or evaluation of any performance measure, performance guarantees or contingency fee arrangement, if applicable, nor shall ERS be invoiced by the Auditor for time spent by the Auditor on any such issues.

### B. Fees

- B.1. The Auditor shall quote a maximum fee for completion of each audit scope as described in Article IV of this RFP. All necessary travel, lodging, meals, and other out-of-pocket expenses shall be included in the maximum fee as quoted below. The maximum fees shall include preparation and presentation of the Final Report.
- B.1.a. The RFP and Contract shall be construed in a manner that promotes and ensures the most effective and efficient service for ERS, GBP health and welfare programs, Participants and the state of Texas. The cost of the scope requirements described in Article IV shall be recovered only by making provision for such cost in the proposed fees, and such fees must be reasonable and fair.

B.1.b. The Auditor shall identify its proposed fees and the total number of audit hours anticipated to complete each specific audit scope in the space provided below.

	FY2011	FY2012
<b>Health TPA Audit</b>	\$	\$
Audit Hours Required		
<b>Disability Audit (STD/LTD)</b>	\$	\$
Audit Hours Required		
<b>HMO Audit</b>	\$	\$
Audit Hours Required		
<b>Flex Spending Audit</b>	\$	\$
Audit Hours Required		
<b>Dental PPO Audit</b>	\$	\$
Audit Hours Required		
<b>Dental HMO Audit</b>	\$	\$
Audit Hours Required		
Combined Total for all GBP Audit Expenses:	\$	\$

Please note that ERS reserves the right to select none, one or any combination of segments for each annual audit.

## VII. Organizational Information

The Auditor shall provide the following information listed below regarding the Organization responding to this RFP.

### A. General Information

A.1. The full legal name, physical/email address(es), and telephone/facsimile numbers.

Full legal name: [REDACTED]  
Physical address: [REDACTED]  
Email address: [REDACTED]  
Telephone number: [REDACTED]  
Facsimile number: [REDACTED]

A.2. Identify the Auditor's type of incorporation:

Publicly owned                       Privately owned  
 For Profit                               Not-for-Profit / Non-Profit

A.3. In which state was the Auditor incorporated or formed? [REDACTED]

A.4. Date of state of Texas license or Certificate of Authority. [REDACTED]

A.4.a. Include a copy of the Auditor's current state of Texas license or Certificate of Authority. [REDACTED]

A.5. Has the Auditor ever had its Certificate of Authority or license to conduct business in Texas revoked?  Yes  No

If yes, explain. [REDACTED]

A.6. Is the Auditor required to maintain any other license(s)? If so, describe and confirm the validity of any valid license(s). [REDACTED]

A.7. Provide the date that auditing services were first provided by the Auditor. [REDACTED]

A.8. Provide the name, title, mailing/email address(es), and telephone/facsimile number(s) for **the person authorized to execute this Proposal** and any subsequent contract that may be awarded. **This person shall be a company vice president or higher level in authority.**

Name: [REDACTED]  
Title: [REDACTED]  
Mailing address: [REDACTED]  
Email address: [REDACTED]  
Telephone number: [REDACTED]  
Facsimile number: [REDACTED]

A.9. Provide the name(s), title(s), mailing/email address(es), and telephone/facsimile number(s) for **the individual(s)** responsible for the preparation of all materials contained in the Auditor's Proposal (other than the *Fee Proposal*).

Name: [REDACTED]  
Title: [REDACTED]  
Mailing address: [REDACTED]  
Email address: [REDACTED]  
Telephone number: [REDACTED]  
Facsimile number: [REDACTED]

A.10. Provide the firm/attorney names, title, mailing/email address(es), and telephone/facsimile number(s) for the person who shall serve as the **Auditor's Legal Counsel** and/or all such information as it relates to any outside law firm retained by the Auditor for purposes of the Auditor's RFP Proposal or Contract performance.

Firm name:  
Attorney name:  
Title:  
Mailing address:  
Email address:  
Telephone number:  
Facsimile number:

A.11. Provide the name, title, mailing/email address(es), and telephone/facsimile number(s) for the person who shall serve as the **Auditor's Account Management Team Lead**.

Name:  
Title:  
Mailing address:  
Email address:  
Telephone number:  
Facsimile number:

A.12. Provide the name, title, mailing/email address(es), and telephone/facsimile number(s) for the person who shall serve as the **Auditor's Lead Auditor**.

Name:  
Title:  
Mailing address:  
Email address:  
Telephone number:  
Facsimile number:

A.13. Provide the name, title, mailing/email address(es), and telephone/facsimile number(s) for the **individual** responsible for preparation of the **Auditor's Fee Proposal** submitted in Article VI.

Name:  
Title:  
Mailing address:  
Email address:  
Telephone number:  
Facsimile number:

A.14. Does the Auditor propose to utilize subcontractors in the performance, delivery and provision of services and products requested hereunder?  Yes  No

A.14.a. If applicable, provide the information below for each subcontractor and specify what services may be performed by each subcontractor. List each in the following format:

Name:  
Mailing address:  
Email address:  
Telephone number:  
Facsimile number:  
Services performed:

A.15. Confirm the Auditor's understanding, acknowledgement and agreement that Auditor shall be fully liable and responsible for the performance of any subcontractor that Auditor utilizes to perform any of the services, coverages, etc. required under the RFP and Contractual Agreement.  Confirm

A.15.a. Confirm the Auditor's understanding, acknowledgement and agreement that all operations, staff and facilities being proposed in support of the RFP and Contractual Agreement will be onshore within the United States of America ("United States").  Confirm

A.15.b. The Auditor shall also confirm that all operations and related services, including, but not limited to, access to and retention of ERS and Participant-related data, shall be done and performed solely within the 50 states of the United States.  Confirm

A.15.c. Furthermore, the Auditor shall confirm that any of its subcontractors or independent contractors will prevent any person or entity located outside of any of the 50 states of the United States from having access to all Program, its Participants, and ERS information, including, but not limited to, confidential or Participant-related information and data.  Confirm

A.16. Provide a company-wide organizational chart reflecting employee name(s) and title(s) for the Auditor to be utilized in support of the Contract. Chart should also identify those positions open but not yet filled.

Auditor organizational chart: 

A.17. Describe the staff (including numbers of full-time equivalent employees) that the Auditor and any subcontractor shall utilize to perform, deliver and provide the exact services, and products requested herein.

The Auditor's staff description:   
Subcontractor staff description:

A.18. How many of these employees are located in Texas? Describe the functions these employees perform.

Number of the Auditor's staff in Texas:   
Description of the Auditor's staff functions:  
If applicable, number of Subcontractor staff in Texas:  
If applicable, description of Subcontractor staff functions:

A.19. Identify key personnel for the Auditor's subcontractor who shall be responsible for any administrative and/or managerial functions of the Contract, which shall include a listing of the Auditor-related duties and length of time contracted with the Auditor.

A.20. Confirm that ALL relevant personnel's licensure(s), including subcontractors, if applicable, shall be valid and current throughout the entire term of the Contract.  Confirm

A.21. The Auditor shall identify five (5) major employers or organizations of similar Program size for which the Auditor currently provides auditing services. For these five (5) employers or organizations, the Auditor shall provide the company name, the Auditor's primary contact, title, and telephone and facsimile numbers of representatives who are familiar with the auditing services the Auditor provides. Provide the number of Participants covered by each program audited. Indicate the auditing services that were provided to each client.

**Note:** The Auditor's Proposal to this request officially authorizes ERS to contact these organizations or any other entity to discuss the services that the Auditor has provided and authorizes the organizations to provide such information to ERS, and shall release and hold harmless ERS and the organizations of any and all liability whatsoever, in connection with providing and receiving all such information. **The Auditor may not provide sponsoring, or parent organizations, subsidiaries, or subcontractors as references.**

Company name:   
Account primary contact:  
Title:  
Email address:  
Telephone number:  
Facsimile number:  
Number of Participants:

A.22. For the last five (5) years, provide the information for the five (5) largest organizations/entities that have terminated the Auditor's services for cause by providing the information listed below. Do not include any entity terminated due to a merger or acquisition.

**Note:** The Auditor's response to this request officially authorizes ERS to contact these organizations or any other person or entity to discuss the services that the Auditor has provided and authorizes any person or entity contacted to provide such information to ERS, and shall release and hold harmless ERS and any person or entity contacted of any and all liability whatsoever in connection with providing and receiving all such information. **The Auditor may not provide sponsoring, parent organizations, subsidiaries, or subcontractors as references.**

Company name:  
Account primary contact:  
Title:  
Email address:  
Telephone number:  
Facsimile number:  
Number of Participants:

- A.23. Provide the name, title, mailing/email address(es), and telephone/facsimile number(s) of the individual responsible for the preparation of the Auditor's **Clarifications** during the RFP evaluation period.

Name:  
Title:  
Mailing address:  
Email address:  
Telephone number:  
Facsimile number:

## **B. Legal Disclosure Requirements**

- B.1. For the most recent ten (10) year period, describe any litigation, regulatory proceedings, investigations, and/or inquiries completed, pending or threatened against the Auditor and/or any of its related affiliates, officers, directors, parent companies, subcontractors and any individuals identified by the Auditor who will be performing any services and providing coverages required under the RFP and Contractual Agreement. Identify the case number, date filed, full style of each suit, proceeding or investigation, including county and state, regulatory body and/or federal district, and provide a brief summary of the matters in dispute, current status and resolution, if any. **The Auditor shall not refer ERS to any third party websites or other sources in order for ERS to obtain this information. The Auditor must address each aspect of the above paragraph in its response to this question.**

Case Number:  
Date filed:  
County and State:  
Regulatory Body:  
Brief summary:  
Current status:  
Resolution:

- B.2. Provide a schedule and describe in detail previous contract implementation breakdowns, performance assessments, contract disputes resulting in suit or settlement and/or contract breaches for the **past ten (10) years** by the Auditor (if any), and discuss all measures the Auditor took to rectify the situation or remedy the breach. Please separate by governmental and non-governmental clients, indicating the reason for the assessment and the amount paid. **List in most recent chronological order.**

Governmental:  
Non-governmental:  
Action taken to resolve issue:  
Assessment amount paid:

- B.3. Confirm that neither the Auditor nor any of its affiliates, subsidiaries, employees, principals, directors, or officers, nor, to its knowledge, the Auditor's agents, assigns, representatives, independent contractors, and/or subcontractors who are involved, either directly or indirectly,

in the Auditor's performance of the Contract, are or may, in the time such parties become involved, be the subjects of any inquiry, investigation, or prosecution by any state or federal regulatory or law enforcement authority, including, but not limited to, such actions by the U.S. Department of Justice or the offices of any states' attorney general, the U.S. Department of Labor, Department of Health & Human Services, or any self-regulatory organization with oversight authorizing over Auditor or such parties concerning any violation of state or federal statutes, rules, regulations, or other laws.  Confirm

- B.3.a. During the past five (5) years, describe any investigations, proceedings or disciplinary actions by any state regulatory agency, states' attorney general or any other law enforcement or applicable oversight body against the Auditor and/or any of its related affiliates, officers, directors and any person or subcontractor performing any part of the services or providing any of the coverages or supplies in connection with the Contract. Identify the full style of each disciplinary action, proceeding or investigation including county and state, regulatory body and/or federal district, and provide a brief summary of the matters in dispute, current status and resolution, if any. **The Auditor shall not refer ERS to any third-party websites or other sources in order for ERS to obtain this information. The Auditor must address each aspect of the above paragraph in its Proposal to this question.**

Case Number:  
Date filed:  
County and State:  
Regulatory Body:  
Brief summary:  
Current status:  
Resolution:



- B.4. Describe any pending agreements, negotiations, and/or offers to merge or sell Auditor's organization. This should include any joint ventures or other financial arrangements regarding a pending change in ownership of the Auditor's organization.
- B.4.a. Disclose any obligation or arrangement to purchase another firm that would involve substantial commitment of assets or capital.
- B.4.b. If applicable, outline the anticipated timelines for the actions reflected in the Auditor's responses to items VII.B.4. and VII.B.4.a. above.
- B.4.c. Confirm that the Auditor shall notify ERS' Executive Director immediately upon reaching any form of binding agreement in connection with any merger, acquisition or reorganization of the Auditor's management as permitted by applicable law.  Confirm
- B.5. Confirm that the Auditor shall notify the Director of Benefit Contracts with any anticipated changes to ERS' Audit Team(s) structure and the Auditor's Senior Officers.  Confirm
- B.6. Does the Auditor sell or report any data from its clients, either specifically or in aggregate, to any organizations?  Yes  No
- B.6.a. If yes, disclose these arrangements and information shared in detail.
- B.7. Provide a copy of the Auditor's current fidelity and liability insurance declarations page reflecting the required coverage limits as specified in the Contractual Agreement.
- If the Auditor considers this document to be confidential and proprietary, place this on you separate schedule as required in Section I.B.27. However, this document will need to be provided for appropriate evaluation of the Auditor's Proposal.
- B.7.a. Describe the various types of insurance coverage and indemnification provided to protect clients, including for each insurance type: risks covered, carriers, levels, limits, and deductibles.
- B.8. Describe the errors and omissions coverage to be provided by the Auditor.
- B.9. Confirm that the Auditor agrees to add ERS as an additional insured on each such policy.  Confirm

## C. Data and Information Services

- C.1. Provide the name, title, mailing/email address(es), and telephone/facsimile number(s) for the **Auditor's Privacy Officer**.

Name: [REDACTED]  
Title: [REDACTED]  
Mailing address: [REDACTED]  
Email address: [REDACTED]  
Telephone number: [REDACTED]  
Facsimile number: [REDACTED]

- C.2. Provide the name, title, mailing/email address(es), and telephone/facsimile number(s) for the **Auditor's Security Compliance Officer**.

Name: [REDACTED]  
Title: [REDACTED]  
Mailing address: [REDACTED]  
Email address: [REDACTED]  
Telephone number: [REDACTED]  
Facsimile number: [REDACTED]

- C.3. Is the Auditor currently in compliance with all HIPAA requirements?  Yes  No

If yes, the Auditor shall confirm that there have been no HIPAA violations alleged against the Auditor.  Confirm

If no, the Auditor shall provide a full description of any HIPAA violations alleged against the Auditor within the past five (5) years. The description shall include, but not be limited to:

- a. The identity of the entity that made the complaint;
- b. The date the complaint was made;
- c. A description of the complaint;
- d. The date the complaint was resolved; and
- e. How the complaint was resolved. [REDACTED]

- C.4. Confirm that the Auditor's ability to transmit and receive confidential and sensitive information via encrypted transmission protocols including site to site VPN, SFTP, TLS, etc.  Confirm

- C.5. Confirm all files containing confidential and sensitive data will be encrypted using file level encryption such as PGP, GPG, or other generally accepted encryption methodology.  Confirm

- C.6. Confirm that the Auditor is currently in compliance with the requirements of all state and federal Privacy rules and regulations.  Confirm

- C.7. For the five (5) year period preceding this Proposal, please provide a brief description of any violations alleged against the Auditor with regard to any state and federal Privacy rules and/or regulations. [REDACTED]

- C.8. Provide the name, title, mailing/email address(es), and telephone/facsimile number(s) for the **Auditor's Technical Consultant ("TC")** contact for SFTP file management and system service concerns.

Name: [REDACTED]  
Title: [REDACTED]  
Mailing address: [REDACTED]  
Email address: [REDACTED]  
Telephone number: [REDACTED]  
Facsimile number: [REDACTED]

- C.9. Related to the administrative functions, customer service support functions, computer systems and equipment of the Auditor and any subcontractor upon which the Auditor relies in

performing or providing services or products to or on behalf of ERS, what are the Auditor's contingency plans and procedures for providing back-up service in the event of strike, natural disaster, act of God, backlog, or other events that might interrupt, delay or shut-down service? Provide a brief description. [REDACTED]

- C.10. Provide a copy of the Auditor's disaster recovery plan and/or business resumption plan including the results of the Auditor's most recent test of the plan. [REDACTED]

If the Auditor considers this document to be confidential and proprietary, place this on the Auditor's separate schedule as required in Section I.B.27. However, the Auditor shall provide this document for appropriate evaluation of the Auditor's Proposal. [REDACTED]

- C.11. The Auditor shall confirm that all ERS-specific Information Technology programming will be performed using personnel located within the 50 states of the United States.  Confirm

- C.11.a. The Auditor shall confirm that ERS-specific identifiable Participant data shall be cleansed for any system-wide Information Technology programming being performed using personnel located outside the 50 states of the United States.  Confirm

## D. Financial Reporting Requirements

- D.1. The Auditor shall provide a copy of the Auditor's 2011 audited financial statement. [REDACTED]

- D.2. For each year contracted, the Auditor shall submit a copy of its most recent annual audited financial statement, by the last business day of June. Affirm that the Auditor will provide financial statements as required. [REDACTED]

- D.3. Is the Auditor's company a subsidiary or affiliate of another company?  Yes  No

If yes, provide full disclosure of all direct or indirect ownership and include an organization chart depicting the parent company, other companies owned by the parent company, and any subsidiary relationships. [REDACTED]

- D.4. Does the Auditor have a sponsoring or parent company?  Yes  No

- D.4.a. Does the Auditor have any understandings, legal relationships or financial agreements with any other entity?  Yes  No

- D.4.b. If yes, state the name and address of any sponsoring or parent organization or others who provide financial support to the Auditor and describe the following:

Full Legal Name: [REDACTED]  
Mailing Address: [REDACTED]  
Type of Support: [REDACTED]  
Type of Relationship: [REDACTED]

- D.4.c. Provide an indication of the type of support, i.e., guarantees, letters of credit, etc., if applicable. [REDACTED]

- D.4.d. Provide the maximum limits of additional financial support from other entities or persons, if applicable. [REDACTED]

- D.4.e. Provide a copy of the sponsoring or parent organization's most current audited financial statement, if applicable. [REDACTED]

- D.5. Provide a copy of the Auditor's current Statement of Standards for Attestation Engagements ("SSAE 16"), SAS 70, Level 2 report, or other outside auditor results pertaining to the accuracy/validity of the Auditor's internal operational controls, if available, or explain why such report is not available, if applicable. [REDACTED]

If the Auditor considers this document to be confidential and proprietary, place this on the Auditor's separate schedule as required in Section I.B.27. However, the Auditor shall provide this document for appropriate evaluation of the Auditor's Proposal. [REDACTED]

D.5.a. Provide a copy of the Auditor's sponsoring or parent company's current SSAE16 or SAS 70, Level 2 report, if applicable. [REDACTED]

## VIII. Deviations

ERS shall interpret any lack of deviation as the Auditor's full agreement to the provisions of the Contractual Agreement and RFP requirements unless specifically and unequivocally stated in detail under Article VIII., Deviations in the Auditor's Proposal. ERS shall interpret the Auditor's Proposal to match the specifications herein except for deviations specifically noted and described in response to this item. Deviations will not become a part of the final Contract unless expressly accepted by ERS and agreed to by ERS in writing. In all cases, the RFP and all Contractual Agreement terms shall control. In the event of any conflict between the two, the terms of the Contractual Agreement shall prevail.

Deviations, which are strongly discouraged, must be specifically identified below in order to be considered. General references to or comparisons with a different standard shall not be considered as satisfactory identification of a deviation and shall be deemed void. The Auditor understands and agrees that ERS is relying on the truth and accuracy of the Auditor's Proposal, that the Auditor shall comply with all requirements set forth throughout the entire RFP, and that ERS shall interpret the Auditor's Proposal to match the RFP specifications, except for deviations specifically noted and described below.

- A.1. Affirm that the Auditor shall comply with all of the **Instructions** described in **Article I** of this RFP.  
 Affirm                       Affirm with the proposed Deviation

If applicable, enumerate and provide a detailed description of each deviation between the Auditor's Proposal and these specifications.

The Auditor's Requested Deviation Detail:

- A.2. Affirm that the Auditor shall comply with all of the **Proposal Evaluation Criteria** described in **Article II** of this RFP.  
 Affirm                       Affirm with the proposed Deviation

If applicable, enumerate and provide a detailed description of each deviation between the Auditor's Proposal and these specifications.

The Auditor's Requested Deviation Detail:

- A.3. Affirm that the Auditor shall comply with all of the **Audit Guidelines** described in **Article III** of this RFP.  
 Affirm                       Affirm with the proposed Deviation

If applicable, enumerate and provide a detailed description of each deviation between the Auditor's Proposal and these specifications.

The Auditor's Requested Deviation Detail:

- A.4. Affirm that the Auditor shall comply with all of the **GBP Health and Welfare Audit Scope of Services** described in **Article IV** of this RFP.  
 Affirm                       Affirm with the proposed Deviation

If applicable, enumerate and provide a detailed description of each deviation between the Auditor's Proposal and these specifications.

The Auditor's Requested Deviation Detail:

- A.5. Affirm that the Auditor shall comply with all of the **Financial Specifications and Fee Proposal Requirements** described in **Article VI** of this RFP.  
 Affirm                       Affirm with the proposed Deviation

If applicable, enumerate and provide a detailed description of each deviation between the Auditor's Proposal and these specifications.

The Auditor's Requested Deviation Detail:

A.6. Affirm that the Auditor shall comply with all of the **Organizational Information** described in **Article VII** of this RFP.

Affirm  Affirm with the proposed Deviation

If applicable, enumerate and provide a detailed description of each deviation between the Auditor's Proposal and these specifications.

The Auditor's Requested Deviation Detail:

A.7. Affirm that the Auditor shall comply with all of the **Interrogatories** described in **Article IX** of this RFP.

Affirm  Affirm with the proposed Deviation

If applicable, enumerate and provide a detailed description of each deviation between the Auditor's Proposal and these specifications.

The Auditor's Requested Deviation Detail:

A.8. While deviations to the Contractual Agreement are strongly discouraged, clearly identify any provisions found in the Contractual Agreement, referenced as Appendix B, to which the Auditor is requesting a deviation. ERS is seeking an Auditor that will agree to, and comply with, all provisions of the Contractual Agreement. ERS shall presume that the Auditor agrees with and will execute the Contractual Agreement unless it clearly and unequivocally specifies any deviations thereto in the Auditor's Proposal. In any event, ERS shall not be required to accept any deviations to the Contractual Agreement or to the terms of this RFP. Any such deviations must be specifically agreed to in writing by ERS before they shall form a part of the final agreement between ERS and the chosen Auditor.

A.8.a. Affirm that the Auditor shall comply with all of the provisions in the **Contractual Agreement** provided in Appendix B of this RFP.

Affirm  Affirm with the proposed Deviation

If applicable, enumerate and provide a detailed description of each Contractual Agreement deviation.

The Auditor's Requested Deviation Detail:

A.9. Affirm that the Auditor shall comply with all of the provisions provided in **Appendix C, Business Associate Agreement** of this RFP.

Affirm  Affirm with the proposed Deviation

If applicable, enumerate and provide a detailed description of each Appendix C, Business Associate Agreement deviation.

The Auditor's Requested Deviation Detail:

A.10. Affirm that the Auditor shall comply with all of the provisions provided in **Appendix D, Data Security and Breach Notification** of this RFP.

Affirm  Affirm with the proposed Deviation

If applicable, enumerate and provide a detailed description of each Appendix D, Data Security and Breach Notification deviation.

The Auditor's Requested Deviation Detail:

A.11. Affirm that the Auditor shall comply with all of the provisions provided in **Appendix E, Performance Guarantees** of this RFP.

Affirm  Affirm with the proposed Deviation

If applicable, enumerate and provide a detailed description of each Appendix E, Performance Guarantees deviation.

The Auditor's Requested Deviation Detail:

- A.12. Affirm that the Auditor shall comply with all of the provisions provided in **Appendix F, Nondisclosure Agreement** of this RFP.  
 Affirm                       Affirm with the proposed Deviation

If applicable, enumerate and provide a detailed description of each Appendix F, Nondisclosure Agreement deviation.

The Auditor's Requested Deviation Detail:

# IX. Interrogatories

In order for the Auditor's Proposal to be considered and accepted, the Auditor must provide answers to all of the questions presented herein. Each question must be answered specifically and in detail. Reference should not be made to a prior response, or to another document, unless the question involved specifically provides such an option. Be sure to refer to the earlier articles of this RFP and the Contract before responding to any of the questions, so that the Auditor has a complete understanding of all of ERS' requirements with respect to the bid. For purposes of the Contract and the RFP, "Auditor" necessarily includes the Auditor, its officers, directors, employees, representatives, agents, subsidiaries, affiliates and any subcontractors and independent contractors.

Answers to the questions included in this Article should be detailed enough to satisfactorily explain the Auditor's position on each particular issue. It is the Auditor's responsibility to respond to these questions in such a way that ERS has a full and complete understanding of its intent. **It is important that the Auditor carefully define any key words or phrases used in answering these questions that are not otherwise defined in the Contract or the RFP. The Auditor's Proposal shall use the terms defined in the Contract and the RFP only as they are so defined.**

The Auditor shall provide individualized responses to any other questions to which the Auditor believes such responses are necessary in order to fully disclose differences in processes or procedures which may exist among different products and services, if any, included in the Auditor's Proposal.

The Auditor acknowledges, understands and agrees that its responses to these Interrogatories and all other provisions of the RFP are material and are being relied on by ERS in connection with the selection of the Auditor to provide the services, benefits, equipment, coverages, supplies, products and other services as specified in the RFP.

## A. General Information

- A.1. Describe any contractual relationships with affiliates and current ERS Vendors that could present a conflict of interest with the Auditor's role as auditor for the TPA Vendor(s). [REDACTED]
- A.2. The Auditor shall warrant and represent that it currently has no interest in, and shall not acquire any interest, direct or indirect, in any person or entity that would conflict in any manner or degree with the Auditor's performance of services required in connection with the Proposal and any Contract related thereto between ERS and the Auditor. [REDACTED]
- A.3. Describe the methodology used to identify various types of errors as required in this RFP.
- A.4. How does the Auditor validate ABA claims?
- A.5. With the understanding that the FY11 audit reports need to be completed by December 31, 2013, the Auditor shall provide two (2) proposed timelines, one for each of the following methodologies:
- Concurrent audits of all GBP programs; or
  - Separate audits of all GBP programs.
- A.5.a. The proposed audit timeline shall include, but not be limited to, dates for:
- An entrance meeting;
  - When Interim work may begin;
  - Scope of work;
  - Draft Reports of findings to ERS;
  - Project completion – final drafts; and
  - Final Report presented to ERS.
- A.6. With the understanding that the FY12 audits need to be completed by December 31, 2014, the Auditor shall provide two (2) proposed timelines, one for each of the following methodologies:
- Concurrent audits of all GBP programs; or
  - Separate audits of all GBP programs.

- A.6.a. The proposed audit timeline shall include, but not be limited to, dates for:
- An entrance meeting;
  - When Interim work may begin;
  - Scope of work;
  - Draft Reports of findings to ERS;
  - Project completion – final drafts; and
  - Final Report presented to ERS.
- A.7. The Auditor shall define how the stated methodology referenced in Section IV.D.1. “aligns” with the Auditor’s established best practices and if it does not align with the Auditor’s best practices, the Auditor shall provide a recommendation for an alternative sampling strategy.

**B. Administration and Auditing Personnel**

- B.1. How does the Auditor propose to administer auditing services to the TPA? Include responses to the following:
- B.1.a. Are all administrative services performed internally?  Yes  No
- B.1.b. Where is the administrative facility located? [REDACTED]
- B.1.c. List the administrative services performed at this location. [REDACTED]
- B.1.d. Indicate which individual will be in charge of this project and describe how he or she demonstrates the competence to lead this project. [REDACTED]
- B.1.e. Briefly state that the Auditor understands the work to be done and clearly describe how it will be accomplished. The description would include how the Auditor has demonstrated competence and qualifications to perform the required services.
- B.1.f. If the Auditor contracts with a management or service company for some or all of the Auditor’s administrative services, what is the name of the company, the services provided, and the method of reimbursement?  
 Name of Company: [REDACTED]  
 Services provided: [REDACTED]  
 Reimbursement Method: [REDACTED]
- B.1.g. How does the Auditor verify the legitimacy of submitted claims and describe the procedures utilized?
- B.2. If any individuals employed by the Auditor have also been employed by a named TPA Vendor, third-party administrator, HMOs, ERS or other Texas state agency or Texas higher education institutions at any time during the two (2) years preceding the RFP proposal closing date, state the name of the individual, the nature of the previous employment, and the date of termination of employment.  
 Name of Individual: [REDACTED]  
 Nature of Previous Employment: [REDACTED]  
 Date of Termination: [REDACTED]
- B.3. Describe the Auditor’s most effective means to detect fraud, abuse and other improprieties. How is the Auditor qualified to perform this task and how does the Auditor undertake such a service? [REDACTED]
- B.4. Describe why Auditor’s proposed fees are fair and reasonable.
- a) Describe the Auditor’s billing practice and provide a sample bill.
  - b) How are the Auditor’s proposed fees consistent with and not higher than the recommended practices and fees published by all applicable professional associations?
  - c) Does applicable law provide for a maximum amount of fees that Auditor can charge for its services? If so, please describe.

## C. Systems and Technology

- C.1. Provide the names and a description of the hardware and software systems that the Auditor is currently using. [REDACTED]
- C.2. For each system, provide the following information:
- C.2.a. When was this system implemented? [REDACTED]
- C.2.b. When was the system last updated? [REDACTED]
- C.2.c. Is there a future update being considered? [REDACTED]
- C.2.d. If so, when is the update anticipated? [REDACTED]
- C.3. What quality assurance processes are provided in the Auditor's system to ensure accuracy in of the proposed audit methodology? [REDACTED]
- C.4. What specific data fields will the Auditor require from ERS to set up the Auditor's system(s) to prepare for the audit? [REDACTED]
- C.5. Data interfaces:
- C.5.a. What is the Auditor's standard interface protocol? [REDACTED]
- C.5.b. What flexibility does the Auditor have with the Auditor's standard approach? [REDACTED]
- C.5.c. Are the Auditor's data files compatible with 834 format? [REDACTED]
- C.5.c.a. If the Auditor's data files are not compatible with the 834 format, the Auditor shall provide what would be required for the Auditor to become compatible and the time frame it would take for the Auditor to become compatible. [REDACTED]
- C.6. What measures does the Auditor take to ensure the security of interfaces the Auditor uses for sending/receiving to/from external sources (whether ERS or a third party)? [REDACTED]
- C.7. Please list and describe all security breaches the Auditor's organization has experienced, including, but not limited to, loss of equipment that contained client information, loss of files, and unauthorized access to your networks, within the last seven (7) years. [REDACTED]
- C.7.a. What investments has the Auditor made over the past three (3) years in its technology to mitigate security breaches? [REDACTED]
- C.8. Is the Auditor's system capable of supporting a User ID other than Social Security Number ("SSN")?  Yes  No
- C.8.a. If the Auditor's system can support a User ID other than SSN, can User ID be alphanumeric?  Yes  No
- C.8.b. What are the Auditor's minimum and maximum User ID lengths? [REDACTED]
- C.9. Briefly describe the Auditor's back-up procedures for the system(s) to be used in the services proposed to ERS. [REDACTED]

## Information Security

- C.10. How does the Auditor manage physical security of its data center? (Who gets access, which hours?) [REDACTED]
- C.11. What technology is in place to manage network and server security? Provide the name of the technology used to manage the network and server security and explain how that technology provides for such management. [REDACTED]

- C.12. Describe how the Auditor control access to ERS' sensitive data? [REDACTED]
- C.13. How does the Auditor secure backup tapes? Who has access to them? (onsite and offsite) Are they encrypted? [REDACTED]
- C.13.a. The Auditor shall confirm that it has the ability to encrypt ERS data and what encryption technology is being used. [REDACTED]
- C.14. How is the Auditor's application security managed and how is client data secured? [REDACTED]
- C.15. Does the Auditor have a formal information security program in place?  Yes  No
- C.15.a. If yes: Does the Auditor have dedicated resources for information security efforts?  
 Yes  No
- C.15.b. Does the Auditor have formal information security policies, procedures and standards?  
 Yes  No
- C.15.c. Are employees required to periodically confirm their compliance with Auditor's information security policies?  Yes  No
- C.15.c.a. If no, the Auditor shall verify whether its employees ever confirm compliance with the Auditor's information security policies and when compliance would be confirmed. [REDACTED]
- C.15.d. Does the Auditor have a user awareness campaign related to information security?  
 Yes  No
- C.15.e. Provide a full description of how the Auditor monitors compliance? [REDACTED]
- C.16. Are the Auditor's desktop and laptop computers encrypted to protect data in case of theft or loss?  Yes  No
- C.17. How does the Auditor protect the privacy of employees contacted through the audit? [REDACTED]

# X. Appendices

- A. Signature Pages
- B. Contractual Agreement
- C. Business Associate Agreement
- D. Data Security and Breach Notification
- E. Performance Guarantees
- F. Nondisclosure Agreement