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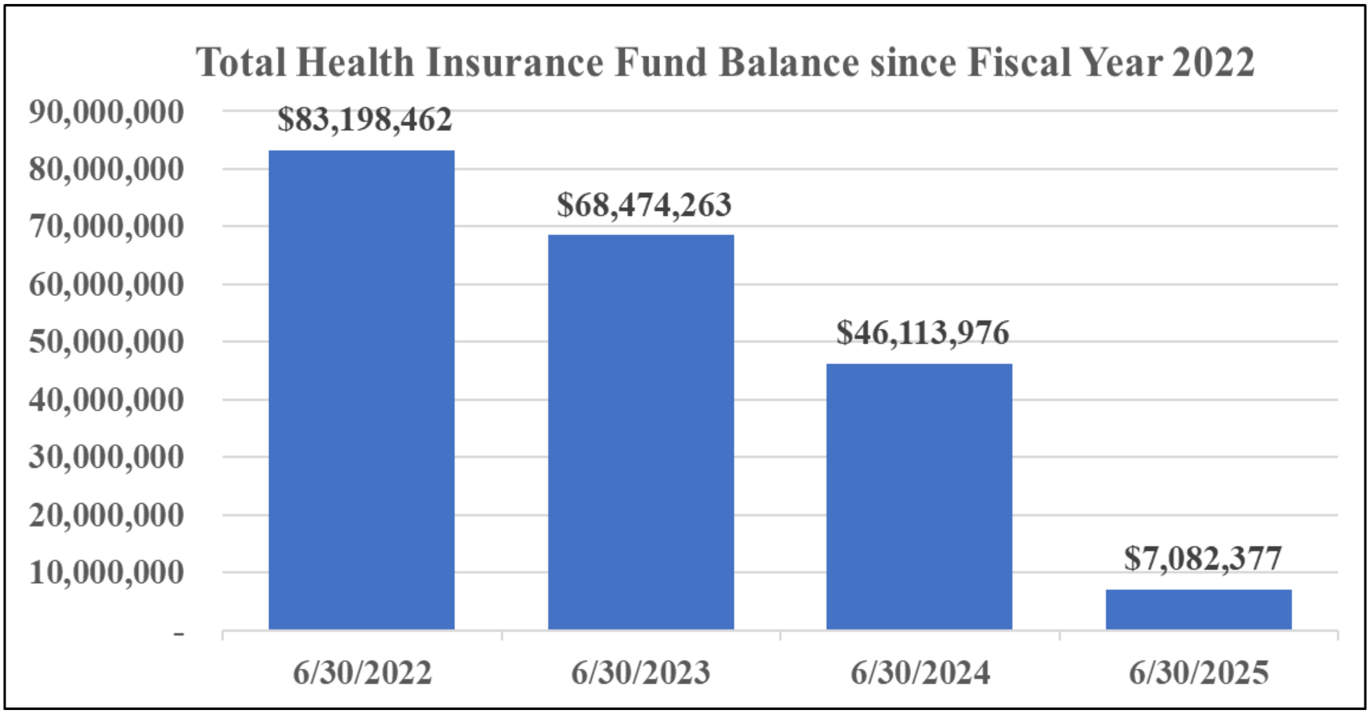
State Auditor Mike Foley Reveals Serious Problems With the State Employees Health Insurance Program

In a letter released today, State Auditor Mike Foley disclosed that the overall fund balance for covering State employee health insurance claims may well be on a fast track to total depletion. Along with an extraordinary escalation in medical expenses, Foley attributes the fund balance's precipitous decline to inadequate oversight by the Wellness and Benefits team in the Department of Administrative Services (DAS), which has allowed various errors to occur. Those inaccuracies have helped to drain a once-thriving fund by allowing, among other problems, duplicate payments to medical providers as well as coverage for individuals clearly ineligible to participate in the health insurance program.

According to Foley's letter, the State employee health insurance fund balance experienced impressive annual increases between fiscal years 2016 and 2022. The fund balance peaked at more than $83 million during the last of those six years, going thereafter into a sharp tailspin that caused the amount to plummet to little over $7 million by fiscal year end 2025. In response, DAS directed the State's share of premiums to be increased for fiscal year 2026, resulting in the employing agencies contributing an additional $24.8 million to the program from July 2025 through February 2026.

Foley acknowledged the effort by DAS to forestall the program's ongoing financial downturn through the infusion of those additional employer premiums. The skeptical State Auditor was quick to point out, however, "The answer is not simply pumping more taxpayer dollars, in the form of increased State premium contributions, into the program. Fundamental administrative renovations are needed."



The fund balance was so flush only a few years ago that the State declared a "premium holiday," forgoing collection of the employee portion of health insurance costs during December 2021. The State even offered employees cash subsidies to procure exercise equipment. Now, according to Foley, the tables have turned dramatically.

At present, approximately 13,500 State employees opt to participate in the health insurance program. Because the program is self-funded, the State pays all eligible medical and prescription claims from its fund balance, which consists of premiums contributed by both employees and their respective State agencies. Including eligible family members and dependents of participating employees, over 28,000 members are covered under the program.

Despite utilizing an outside claims processor, the State remains wholly responsible for the employee health insurance program's financial coverage. The work underpinning Foley's letter occurred while United Healthcare was processing employee claims, a function that will be assumed by Blue Cross and Blue Shield under a new contract effective July 1st of this year.

During 2025 alone, as illustrated by the following table, the 20 highest-cost State workers and their dependents incurred 7,455 medical claims for a combined expense of over $12.7 million:

Subscriber	Count of Claims	Amount
Subscriber #1	230	$ 1,091,422
Subscriber #2	680	$ 897,246
Subscriber #3	254	$ 866,992
Subscriber #4	643	$ 845,298
Subscriber #5	373	$ 756,576
Subscriber #6	265	$ 666,515
Subscriber #7	1,166	$ 630,718
Subscriber #8	85	$ 585,279
Subscriber #9	724	$ 576,403
Subscriber #10	207	$ 571,275
Subscriber #11	479	$ 566,816
Subscriber #12	100	$ 559,625
Subscriber #13	612	$ 556,590
Subscriber #14	219	$ 555,564
Subscriber #15	95	$ 550,386
Subscriber #16	527	$ 516,024
Subscriber #17	176	$ 506,272
Subscriber #18	143	$ 488,259
Subscriber #19	386	$ 487,746
Subscriber #20	91	$ 480,101
Sub-Total Top 20	**7,455**	**$ 12,755,107**

When the employee health insurance program was last audited in 2012, the State was paying for a "stop loss" supplemental insurance policy to cover participants with annual costs over a half-million dollars per year; however, that policy was dropped in 2017, and no evaluation has been performed since then to determine whether a need exists to renew it.

Additional key findings of the report include the following:

1) The Wellness and Benefits team at DAS was insufficiently prepared for properly overseeing the State's complex employee health insurance program, and its core task of monitoring the accurate processing of medical claims appears to have been delegated largely to United Healthcare – the same company relied upon to process claims on the State's behalf.

2) Because the State is changing claims processors from United Healthcare to Blue Cross and Blue Shield, intensive audit testing was deferred until after the new provider has been operating for a reasonable period. Nevertheless, even the limited work performed by Foley's team revealed instances of United Healthcare having processed not only duplicate medical and prescription claims but also claims of individuals clearly ineligible to participate in the program – thus, improperly exposing the State to needless expense.

3) DAS did not analyze, much less request, claims data held by United Healthcare regarding the variances in reimbursements to different health care providers, which would be needed to determine why identical medical procedures had such wide cost differentials. Furthermore, when Foley's team sought access to such detailed information, DAS balked at insisting that the claims processing contractor make it available – the company's explicit contractual obligation to do so notwithstanding.

4) Similarly, DAS failed to exercise its contractual right to obtain, among other medical and prescription drug claims data held by United Healthcare, specific Current Procedural Terminology (CPT) codes. Being deprived of that information, Foley's report charges, hamstrung the agency's ability to analyze the skyrocketing costs of claims paid, which increased by $36 million between fiscal years 2024 and 2025 alone.

5) Tens of millions of dollars in rebates owed to the State from pharmaceutical companies were never reviewed for accuracy. Foley's team concluded, moreover, that the DAS Wellness and Benefits staff lacked a basic understanding of how the rebates were to be calculated correctly and remitted to the State.

6) Despite paying $349,000 for various actuarial services, including an annual "Value of Investment" study for the State's wellness program, no such report was ever provided.

7) Pursuant to its claims processing contract with the State, the bulk of the $5,693,790 administrative fee received by United Healthcare in 2025 was supposed to have been based on the number of active employees enrolled in the health insurance program. Foley's team questions the accuracy of the employee count provided by DAS, however, casting doubt upon the accuracy of the amount paid to the contractor.

8) Foley believes that DAS is missing a critical opportunity to control costs by not directly negotiating fees paid to health care providers. Instead, United Healthcare has been entrusted with that task – a risky delegation of duty, in Foley's opinion, given the lack of any incentive whatsoever for the outside claims processor to minimize the State's healthcare costs.

"The downward spiral in the State employee health insurance program's fund balance is almost certain to continue, if not actually gain momentum," Foley cautioned, "unless DAS can get a handle on soaring coverage costs." He continued, "Last year, DAS paid $293 million in medical and prescription claims – tens of millions of dollars more than during the prior year, and that alarming trend shows no sign of abating." Foley's letter details various issues that must be addressed to reverse this disturbing trend. Chief among them, he argues, is blind reliance upon an outside claims processing contractor. "DAS must immediately stop allowing the fox to guard the henhouse and aggressively insert itself in the task of controlling State employee health insurance costs," Foley concluded.