

Insurance Pool Governing Board Family Health Insurance Assistance Program

Bill Bradbury, Secretary of State
John Lattimer, Director, Audits Division

Summary

PURPOSE

We conducted this review of the Family Health Insurance Assistance Program (FHIAP) at the request of the Insurance Pool Governing Board's (IPGB) management.

RESULTS IN BRIEF

We found that the IPGB could improve its management of the Best Choice Administrators contract, monitoring of BCA activities related to FHIAP, and cash management.

The IPGB generally agrees with the results and recommendations. Their response is attached to this report.

INTRODUCTION

The Insurance Pool Governing Board's purpose is to help Oregonians gain access to health benefit coverage.

The Oregon Legislative Assembly established the IPGB in 1987 as a private insurance component of the Oregon Health Plan. The IPGB administers two programs designed to increase access to private health insurance. One, the Marketing, Information, and Outreach Program, develops and promotes voluntary health insurance programs for employees of small businesses. The second, the Family Health Insurance Assistance Program (FHIAP), provides direct subsidies to eligible Oregonians to help them buy individual health insurance coverage through the private sector.

FHIAP was created by the 1997 Legislature as an expansion of the Oregon Health Plan. FHIAP's mission is to remove economic barriers to health insurance coverage for uninsured Oregonians and encourage self-reliance through participation in and access to the health benefit system.

ORS 653.805 (3) directs the IPGB to enter into a contract with a third-party administrator to administer

FHIAP. As stated in the statute, duties of the administrator may include:

- ◆ Eligibility determination;
- ◆ Data collection;
- ◆ Assistance payments;
- ◆ Financial tracking and reporting; and
- ◆ Other services IPGB may deem necessary for administration of the program.

The IPGB entered into a three-year contract with Best Choice Administrators (BCA) in May 1998. Their contract was subsequently amended in April 1999.

SCOPE AND METHODOLOGY

The purpose of this review was to conduct a risk assessment of the IPGB's Family Health Insurance Assistance Program. To accomplish this objective, we:

- Interviewed officials and staff of the IPGB;
- Reviewed the IPGB and BCA Administration Agreement;
- Reviewed IPGB and BCA FHIAP documentation; and
- Visited Best Choice Administrators headquarters and interviewed officials and staff

responsible for administering the Family Health Insurance Assistance Program.

We limited our review to the areas specified above. We conducted our review from February 2000 to May 2000.

AUDIT RESULTS

Contract Management

The IPGB and BCA entered into an Administration Agreement on May 12, 1998, for the three years from May 15, 1998, through May 14, 2001.

Contract Terms *Article 12, Section 8 – Termination*, states that the contract may be terminated by mutual consent of both parties, or by either party upon 120 days' notice, in writing and delivered by certified mail or in person. This clause makes it difficult to enforce contract performance as BCA could terminate the contract in response to any contract performance issue raised by IPGB.

We recommend that IPGB not include provisions in future contracts that would enable the contractor to terminate the contract at will. IPGB should work with its Assistant Attorney General, the Department of Administrative

Services Purchasing Division, and the contract administrator at the Department of Consumer and Business Services when drafting the next FHIAP third party administration contract.

Contract Amendment 1 In April 1999 IPGB and BCA signed an Amendment to the original contract incorporating new compensation rates for BCA effective April 1, 1999, through May 14, 2001. The new fixed monthly charge of \$35,000 per month represents an increase of \$11,183 per month for the period April 1, 1999, through May 14, 2000, and an increase of \$10,231 per month for the period of May 15, 2000, through May 14, 2001. Thus, the higher rates result in an additional \$256,968 over the two-year period. In addition, effective April 1999, the fixed member charge was increased from \$1.82 to \$6.25 per member per month. With the average 6,223 enrolled members during the period from July 1999 to December 1999, this increase provides additional compensation to BCA of about \$27,500 per month.

Although IPGB was able to provide some general explanations as to the increase, it was not able to provide specific details supporting why these amounts of additional compensation were warranted.

We recommend that IPGB better document the justification for the increased compensation (e.g. additional services to be performed) for any future contract amendments.

Agency Response:

See attached response.

Monitoring

We identified the following risks related to contract monitoring.

Subsidy Payments BCA invoices IPGB for most FHIAP member-subsidy payments one month prior to the insurance premium due date. IPGB pays BCA when the invoices are received. These subsidy payments are transferred to a trust account maintained by BCA. On average, the member-subsidy payments total approximately \$800,000 per month. IPGB does not verify the date BCA pays the insurance carriers, nor does it verify the actual insurance premium amounts. In addition, IPGB does not have a control in place to prevent making duplicate payments to BCA for FHIAP members. BCA receives the trust account bank statements and prepares related reconciliations. IPGB does not receive account statements directly from the bank as independent confirmation of the transactions or balance.

We recommend that IPGB:

1. On a periodic basis, confirm with the six certified insurance carriers the amount of premium subsidies received from BCA. Follow-up with BCA on any discrepancies.
2. Periodically verify policy and premium details with FHIAP members. Develop and maintain a database of FHIAP members and premiums for comparison to premium subsidy billings. Follow-up with BCA on discrepancies.
3. Ask BCA to submit the FHIAP subsidy billings electronically. To facilitate data analysis, use spreadsheet or other analysis software to ensure accuracy of the billings, such as preventing duplicate billings and identifying terminated members.
4. On a regular basis, obtain and analyze all original bank

statements and documentation to ensure the integrity of BCA's FHIAP Premium Trust Account reconciliation.

Agency Response:

See attached response.

Subsidy Recovery Each month approximately 200 FHIAP members are terminated from the program. However, because IPGB pays member premium subsidies approximately one month in advance, the terminations require IPGB to recover dollars from BCA. IPGB relies on BCA to identify the member terminations and to offset the prepaid subsidy refunds for terminated members against current subsidy billings. Presently, terminated-member subsidies are not refunded to IPGB until about two months subsequent to the month the member is terminated.

We recommend that IPGB obtain BCA's listing of terminated FHIAP members electronically. This data should be compared with the monthly FHIAP Subsidy Billing Reports to ensure IPGB is not paying for terminated members. In addition, we recommend that IPGB compare its own data for terminated Oregon Medical Insurance Pool (OMIP) members, who are also FHIAP members, to the monthly Subsidy Billing Reports to ensure it is not being billed for terminated members. IPGB should also consider getting terminated FHIAP member reports from the certified insurance carriers.

Agency Response:

See attached response.

Cash Management

Interest Earnings As mentioned previously, IPGB pays FHIAP member subsidies about one month in advance. The funds are transferred to BCA's FHIAP

Premium Trust Account. For the month of February 2000, the balance in this trust account never fell below \$1,000,000. The February bank charges for this account were \$873; the bank does not pay interest on this account. As a result, a significant amount of FHIAP funds lie idle, not earning interest for the program.

We recommend that IPGB pay member subsidy payments to BCA

as close as administratively feasible to premium due dates. In this regard, we recommend IPGB work with BCA and insurance carriers to determine what dates the majority of the premiums are paid to facilitate this effort. This would increase interest earnings paid by the Oregon State Treasury on program funds.

An alternate solution might be for IPGB to directly pay the insurance carriers once BCA has determined

program eligibility and secured insurance. This would allow IPGB to maximize interest revenue on program funds and provide better control over these funds.

Agency Response:

See attached response.

This report, which is a public record, is intended to promote the best possible management of public resources. Copies may be obtained by mail at Oregon Audits Division, Public Service Building, Salem, Oregon 97310, by phone at 503-986-2255 and 800-336-8218 (hotline), or internet at Audits.Hotline@state.or.us and <http://www.sos.state.or.us/audits/audithp.htm>.

AUDIT ADMINISTRATOR: *Mary Wenger, CPA* • AUDIT STAFF: *Sarah Meyer; Tomas Flores, CPA*

DEPUTY DIRECTOR: *Sharron E. Walker, CPA, CFE*

The courtesies and cooperation extended by the officials and staff of the Insurance Pool Governing Board were commendable and much appreciated.

Auditing to Protect the Public Interest and Improve Oregon Government



Oregon

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July 28, 2000

Mary E. Wenger, Audit Administrator
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Salem, Oregon 97310

Dear Ms. Wenger:

I want to thank the Audits Division for responding to our request to conduct a risk assessment of the Family Health Insurance Assistance Program (FHIAP) administered by the Insurance Pool Governing Board (IPGB). Because it was a new program implemented with a very short time frame and limited administrative resources, we felt it was important to obtain an early and in-depth view of our performance, the potential financial risks and specific recommendations related to the performance of IPGB and the third-party administrator.

We concur with your general findings summarized under the heading "Audit Results". Specifically, we concur that the IPGB could improve its (1) management of the BCA (Best Choice Administrators) contract, (2) monitoring of the BCA activities related to FHIAP, and (3) cash management.

The following are specific responses to the recommendations contained in the report:

Contract Management — Agency Response:

We agree with your recommendation that future contracts specify when a contract amendment can occur. We also agree that we should provide better documentation and justification for changes in the compensation contained within the contract.

It is important to note that the contract negotiated with BCA anticipated and included a number of presumptions about the administration of the program that were either in error or not anticipated. For example, the initial RPF projected 15,000-20,000 enrollees (based at that time on the initial start-up funding) which was later reduced by the Legislature to 5,250 enrollees, the number of potential applicants on the waiting list was far greater than expected and, perhaps more importantly, their method of accessing the third-party administrator by telephone rather than reservation card created unexpected personnel costs that neither we nor the TPA anticipated in the bidding process.



While we concur with the Audit's Division recommendation, we believe the circumstances and facts that framed the initial Request for Proposal changed and supported our decision to renegotiate the contract with the TPA.

Monitoring and Cash Management — Agency Response:

During and shortly after the risk assessment was completed, the IPGB and BCA entered into serious discussions regarding their performance under the contract, compensation levels and changes to the administration of the program. New models were explored that would provide better customer service, increased financial tracking and accountability, and efficiencies in the administration of the program that would accomplish these while reducing the administrative expense.

After much discussion, it was mutually agreed that the contract between the IPGB and BCA would terminate November 30, 2000.

After consultation with members of the IPGB Board, the Oregon Health Council, the Office of Oregon Health Plan Policy and Research and the Governor's Office, we have decided to take the administration of FHIAP in house. This decision is necessitated by the lack of time to release a Request for Proposal, select a contractor and provide for adequate time for the contractor to implement and transition the program from BCA to them.

Effective July 5, 2000, through contract amendment with BCA, the IPGB assumed responsibility for reservation list and application management for the FHIAP. We have also assumed responsibility for eligibility determination, redetermination of eligibility and customer service related to eligibility, program information and our agent referral system.

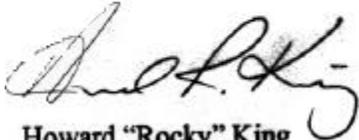
We have contracted with DCBS's Information Management Division to design and assist in the implementation of the next phase of the transfer of responsibilities from BCA to IPGB. Specifically, the billing, payment and data base systems that will support the enrollment and subsidy functions of the program. Additionally, we have contracted with DCBS's Business Administration Division who will manage our cash receipts system.

The implementation of the new billing and payment process will address the most serious of the problems identified in the report's findings, including direct payment to the insurance carriers on a "just in time" basis. This should also address problems related to terminations, reconciliations, and the verification of premium payments verses premium rates which our outlined in your report. We have made the risk assessment available to the project manager (from DCBS's Information Management Division) to ensure that the integrated system will include as many of the audit and financial controls systems as possible.

We have chosen not to alter the current administrative process of the program performed by BCA but rather to focus our and their resources (primarily IS) in the design of the new billing, payment and data base system and to ensure the transfer of current billing and enrollment data is accomplished within the next two-three months. This will allow for adequate testing of the billing and payment processes within IPGB and between IPGB, carriers and our customers. While this decision does expose some risk, we believe it is prudent, less expensive in the long run and allow us to address the problems identified in a shorter time frame.

Again, I want to thank you and your staff for the analysis provided relating to the administration of FHIAP. We recognize there are problems, both in the third-party administration as well as how we manage the program internally. Your report is and will continue to provide us with good information on which to build and put in place a more efficient and accountable system.

Sincerely,

A handwritten signature in black ink, appearing to read "Howard 'Rocky' King". The signature is fluid and cursive, with a large, stylized initial "H" and "K".

Howard "Rocky" King
Administrator