

# Secretary of State Audit Report

Kate Brown, Secretary of State

Gary Blackmer, Director, Audits Division



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## Oregon Health Authority: Improve Controls over Child Enrollment Reporting and Advertising Expenditures

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### Summary

In February 2009, the President signed into law the Children's Health Insurance Program Reauthorization Act of 2009 (CHIPRA). Under this law, states can strengthen their existing health care programs and provide coverage to additional low-income, uninsured children. In response to CHIPRA, the Legislature created the Healthy Kids program within the Oregon Health Authority (OHA) to expand the availability of health care to Oregon children.

The Office of Healthy Kids began a concerted outreach and advertising effort to increase the number of children enrolled in health care plans. From July 2009 through February 2011 Healthy Kids spent approximately \$1.8 million to purchase advertising throughout Oregon.

An additional benefit available under CHIPRA is a performance bonus that provides added federal funding for qualifying states that increased Medicaid enrollment of children above a baseline level. Oregon was awarded bonuses in federal fiscal years 2009 and 2010 totaling approximately \$1.6 million and \$15.1 million, respectively.

The purpose of our audit was to review selected internal controls and fiscal management procedures that OHA has in place for its Healthy Kids program. We focused on the OHA Medicaid child enrollment numbers reported to the federal government for the performance bonus award, and controls over advertising expenditures.

We found an error in the process OHA used to apply for the 2010 bonus award, which resulted in Oregon being awarded approximately \$4.6 million more than warranted. In 2009, children allowed to be included in the enrollment count were selected from Oregon's Medicaid database by system code. In contrast, in 2010, all children in the program were first selected and then children not allowed to be included in the count were excluded. However, some ineligible system codes were not excluded, resulting in non-citizen children being included in the enrollment count contrary to rules governing the bonus. When we brought this to their

attention, OHA managers promptly contacted the federal government regarding the error. OHA management indicated that the excess award amount has not been received, and the award will be adjusted.

OHA's controls over advertising expenditures generally ensured accurate and proper transactions; however, we noted some areas where controls could be improved. For example, proper documentation was not always in place before payment was made (i.e., purchase orders, contracts, and proof of service performance), and applicable signatures were not always obtained for some documents. In addition, OHA could improve its payment tracking system to minimize the risk of duplicate payments. Finally, some transactions were miscoded in the accounting records.

We recommend OHA management strengthen its enrollment reporting practices and work with the federal government to adjust the award amount. In addition, we recommend management implement stronger controls over Healthy Kids advertising expenditures.

## **Agency Response**

The agency response is attached at the end of the report.

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## Background

Healthy Kids is one of five health care programs of the Oregon Health Authority (OHA). Through a series of bills passed in 2009, the Oregon Legislature created the OHA, combined most state health-related programs including three program divisions from the Oregon Department of Human Services, and created the Healthy Kids program to expand the availability of health care to Oregon children.

Healthy Kids offers healthcare coverage for uninsured Oregon children under the age of 19. Based on US Census Bureau data, in 2009 Oregon had approximately 113,000 uninsured children aged 1 to 18. In conjunction with the CHIPRA, Healthy Kids is working to strengthen Oregon's existing health care programs and provide coverage to additional uninsured children. Healthy Kids' comprehensive coverage includes medical, dental, vision, mental health care, and prescription benefits.

Funding for the Healthy Kids expansion comes from a 1 percent tax on health insurance premiums and from matching federal funding for children's health insurance.

For the 2009-11 biennium, the Healthy Kids' budget for the administrative costs of the program totaled approximately \$13.2 million. Approximately \$4.7 million was specific to marketing efforts. An additional \$5.8 million was budgeted for outreach grants, with the remainder for salaries, services and supplies.

Program implementation occurred in two separate phases which aligned with the program's three coverage tiers shown in Table 1. The three tiers determine the family contribution for insurance premiums for the plan. The first phase was implemented at the outset of the program with the no-cost tier for families making less than \$44,100 for a family of four (200% or less of the federal poverty level). The second phase of the program implementation was completed in February 2010 and included the low-cost and full-cost tiers for families making \$44,100 and above (more than 200% of the federal poverty level).

**Table 1: Healthy Kids Coverage Tiers**

<b>Tiers</b>	<b>Coverage</b>	<b>Family of Four Income Level*</b>	<b>Cost</b>
<b>Tier One</b>	Oregon Health Plan Plus <i>or</i> Employer Sponsored Insurance	Less than \$44,100	No cost to families
<b>Tier Two</b>	Healthy KidsConnect (Private Market Insurance Option) <i>or</i> Employer Sponsored Insurance	\$44,100 to \$66,150	Low cost premium on a sliding scale
<b>Tier Three</b>	Healthy KidsConnect (Private Market Insurance Option)	Over \$66,150	Full cost premium; no subsidy

\* 2010 poverty guidelines

OHA’s Office of Private Health Partnerships administers the private market insurance component, including Healthy KidsConnect and Employer Sponsored Insurance. The Healthy KidsConnect plan provides subsidies for families that earn too much to qualify for the Oregon Health Plan, but cannot afford the full cost of private health insurance. Families under the Employer Sponsored Insurance component receive premium assistance in the form of a reimbursement as long as the employer plan and family circumstances meet federal guidelines.

## **Program Outreach**

In February 2009, the President signed into law the Children’s Health Insurance Program Reauthorization Act of 2009 (CHIPRA), which extended and improved the Children’s Health Insurance Program (CHIP). CHIPRA outlines provisions states can achieve to receive a CHIP performance bonus award to offset costs resulting from increased Medicaid child enrollment. To qualify for the bonus award, states must have adopted at least five program features to encourage enrollment and retention of eligible children.

OHA achieved the following five features for its children’s programs:

1. Continuous eligibility
2. Liberalization of asset requirements
3. Elimination of in-person interview requirement
4. Use of joint application for Medicaid and CHIP
5. Automatic renewal (use of administrative renewal)

States must have also enrolled additional children in Medicaid above a baseline. The amount of the bonus award is calculated by a formula based on the increase in enrollment. Not all children receiving benefits are eligible to be included in the bonus award enrollment count.

In July 2009, the Office of Healthy Kids began a concerted outreach effort to raise awareness about health care options for families with uninsured children and to increase the number of children enrolled in health insurance plans. Billboards, print, radio, cinema, internet ads and social media were among the marketing methods used by Healthy Kids. Healthy Kids also used outreach grant organizations to inform local communities of the health care program and to assist families with the application process.

For federal fiscal year 2009, OHA reported Medicaid child enrollment at 215,146, a 5 percent increase over the baseline of 205,183, and was awarded a bonus of approximately \$1.6 million.

For federal fiscal year 2010, OHA reported Medicaid child enrollment at 253,402, approximately 19 percent above the 2010 baseline of 213,029, and was awarded a bonus of approximately \$15.1 million.

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## Audit Results

### Error resulted in \$4.6 million excess bonus for Oregon

CHIPRA establishes requirements for determining which children count towards the performance bonus award—generally children enrolled in Medicaid who meet eligibility criteria in effect on July 1, 2008. However, CHIPRA excluded some groups of children who, although qualified to receive Medicaid benefits, could not be counted towards the bonus award. For example, CHIPRA excluded children who are not U.S. citizens but are eligible to receive Medicaid benefits.

We found that OHA overstated enrollment for the 2010 bonus award by approximately 7,400 children when it included the non-citizen children in its submission. As a result, Oregon qualified for approximately \$10.5 million, although the federal government awarded a bonus of approximately \$15.1 million, an excess award amount of approximately \$4.6 million.

The error occurred during OHA's process of compiling information for its submission. Staff pulled enrollment numbers from the state's Medicaid database using a method that differed from the one used for the 2009 submission, and their review of the results did not detect the error. In 2009, children allowed to be included in the enrollment count were selected from the database by system code. In contrast, in 2010, all children in the program were first selected and then children not allowed to be included in the count were excluded. However, some ineligible system codes were not excluded, resulting in non-citizen children being included in the enrollment count.

When we brought this to their attention, OHA managers promptly contacted the federal government regarding the error. OHA management indicated that the excess award amount has not been received and the award will be adjusted.

### Healthy Kids advertising expenditures

State rules and policies provide requirements and recommended practices for agencies to follow during procurement of and payment for goods and services.

In general, expenditure transactions should be:

- legal obligations of the state supported by contracts, purchase orders, invoices, grants and/or claims;

- supported by documentary proof that the agency has received proper value before a voucher is authorized for payment;
- approved by an authorized approving officer; and
- properly classified and accurately recorded in the accounting records.

OHA's controls generally ensured accurate and proper transactions for the advertising expenditures we reviewed; however, we noted some areas where the controls could be strengthened:

- In one instance Healthy Kids did not have a purchase order or contract in place for a \$10,000 payment to an advertising firm. In a second instance, a contract for \$3,000 was not signed by the vendor.
- Healthy Kids prepaid multiple months' billings for billboard services, but had not established an effective process for tracking payments. As a result, staff had difficulty matching invoices to purchase orders and contracts, and a duplicate payment was made to a vendor. However, Healthy Kids' program staff identified the duplicate payment and notified the vendor prior to the audit. The vendor subsequently provided a credit against future contracted costs leaving \$541 of the overpayment unresolved at the time of our audit.
- A \$1,680 invoice was paid that did not have evidence of approval by the approving officer.
- The delegation of signature authority to a second individual in the Healthy Kids program was not yet in effect when that individual approved a \$7,155 invoice.
- Healthy Kids did not always obtain and retain adequate documentary proof of performance by certain vendors. More specifically, for three separate invoices for cinema advertisements, staff recalled receiving proof that the advertisements had aired, but they could not provide the proof of performance when we asked for it. Staff subsequently obtained this documentation from the vendors before our audit was completed. In addition, we found eight instances related to billboard advertisements when the proof of performance documentation was not legible or adequate to identify the location of the billboards.

- Healthy Kids' accounting transactions were initially recorded under an incorrect accounting code, and were later corrected. However, two transactions totaling approximately \$14,000 were missed and remained uncorrected. As a result, an incorrect federal reimbursement rate was attributed to these transactions. An additional transaction for approximately \$1,700 belonging to a separate OHA program was incorrectly coded to the Healthy Kids' program.

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## Recommendations

We recommend OHA management develop a consistent process to compile and review the bonus award enrollment figures for future submissions. We also recommend OHA management work with the federal government to adjust the bonus award amount.

To strengthen its controls over the Healthy Kids advertising expenditures, OHA and Healthy Kids management should:

- ensure purchase orders and contracts are in place as appropriate, and are properly executed;
- implement an effective payment tracking process to reduce the risk of overpayment;
- ensure timely delegation of signature authority;
- obtain and retain proof of performance documentation that clearly supports the services provided;
- correct the recording errors identified during the audit; and
- determine and resolve the effect of the incorrect reimbursement rate resulting from the miscoded transactions.

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## Objectives, Scope and Methodology

The purpose of the audit was to review selected internal controls and fiscal management procedures of the OHA's Healthy Kids program. We focused on the OHA process to compile enrollment numbers to submit for the performance bonus award and controls over Healthy Kids' advertising expenditures. Our specific objectives included determining whether:

### ***Performance Bonus Award***

- OHA accurately reported Medicaid child enrollment numbers to the federal government; and
- OHA followed applicable guidelines in reporting enrollment numbers.

### ***Advertising Expenditures***

- controls were effective in providing reasonable assurance that goods and services were received for the money spent on advertising;
- controls were effective in preventing or detecting duplicate payments;
- Healthy Kids followed applicable laws, rules and policies related to contracting and payment tracking;
- correct reimbursement rates were applied.

To meet our objectives related to the performance bonus award, we interviewed key personnel, reviewed applicable federal guidelines, and examined relevant documentation OHA prepared for submission to the federal government. We also performed comparative analyses, including comparisons of enrollment numbers and payments for services as reasonableness tests of the enrollment data.

To achieve our objectives related to the advertising expenditures, we interviewed key program personnel, financial services personnel, and information services personnel. We obtained an understanding of control procedures for the advertising expenditures. We tested those procedures and reviewed supporting documentation for a sample of transactions from the advertising expenditure data for the period July 2009 through February 2011. Payments for advertising during that period totaled approximately \$1.8 million for 1,586 transactions. We examined 77 of those transactions. We applied our test procedures to 13 judgmentally selected transactions and 35 randomly selected transactions. We selected 29 additional transactions to test for duplicate payments. Furthermore, we tested the selected transactions for compliance with Oregon Revised Statutes, Oregon

Administrative Rules, state accounting and internal control policies, and federal reimbursement guidelines.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

August 31, 2011

Gary Blackmer, Director  
Oregon Audits Division  
255 Capital Street N.E., Suite 500  
Salem, OR 97310

RE: Oregon Health Authority and Department of Human Services Response to  
*Oregon Health Authority: Improve Controls over Child Enrollment Reporting and  
Advertising Expenditures* Draft Audit Report

Dear Mr. Blackmer:

Thank you for the opportunity to respond to the draft audit entitled, *Oregon Health Authority: Improve Controls over Child Enrollment Reporting and Advertising Expenditures*. We appreciate all the detailed work and effort your review required and value the recommendations made in the draft report. Below are our specific responses to those recommendations.

**Recommendation:**

We recommend OHA management develop a consistent process to compile and review the bonus award enrollment figures for future submissions. We also recommend OHA management work with the federal government to adjust the bonus award amount.

**Agency Response:**

The Oregon Health Authority (OHA) agrees with the recommendation.

To qualify for a CHIPRA performance bonus payment, a state must apply to the federal government and demonstrate it meets two criteria, defined in CHIPRA law:

- It implemented specific program features that are known to promote enrollment and retention of children in medical coverage; and
- Its enrollment of children in Medicaid increased above the CHIPRA enrollment target.

If a state meets both criteria, the state qualifies for a bonus award based on the number of children exceeding the target. As mentioned in the report, for federal fiscal year 2009 (the first year states could qualify for CHIPRA bonuses), OHA applied for and received a CHIPRA bonus for \$1.6 million. The federal government awarded only eight other states CHIPRA bonuses for 2009. For federal fiscal year 2010, OHA applied for and received a CHIPRA bonus for \$15 million. The federal government awarded only 14 other states CHIPRA bonuses for 2010. As identified in the audit, OHA over reported its 2010 enrollment count by approximately 7,400 non-citizen children. As a result, the federal government awarded OHA approximately \$4.5 million more than it should have received. OHA still qualifies for a bonus of more than \$10 million.

OHA has already taken a number steps to correct the 2010 bonus award. OHA contacted the federal government about the enrollment reporting error. OHA stopped drawing bonus money from the federal account, leaving approximately \$5 million unspent from which the federal government will adjust the original grant award. OHA corrected, tested, and documented the data query used for CHIPRA enrollment reporting. OHA also submitted to the federal government a revised enrollment count for 2010.

Based on the revised enrollment count, the federal government recalculated Oregon's 2010 bonus award. Based on this recalculation, the federal government decreased OHA's unspent award by \$4,488,017 on August 11, 2011.

Moving forward, OHA management will review in detail the data query criteria and data query results with Information Services staff and staff responsible for caseload monitoring before each year's submission of its Medicaid enrollment of qualifying children. OHA will also compare the data query criteria and results with the prior year's data pull to identify any issues.

OHA will utilize the improved process to pull and review the enrollment data for federal fiscal year 2011 in early October to be submitted before the federal deadline of November 1, 2011.

**Recommendation:**

To strengthen its controls over the Healthy Kids advertising expenditures, OHA and Healthy Kids management should:

- ensure purchase orders and contracts are in place as appropriate, and are properly executed;
- implement an effective payment tracking process to reduce the risk of overpayment;
- ensure timely delegation of signature authority;
- obtain and retain proof of performance documentation that clearly supports the services provided;
- correct the recording errors identified during the audit; and
- determine and resolve the effect of the incorrect reimbursement rate resulting from the miscoded transactions.

**Agency Response:**

The Oregon Health Authority agrees with the recommendation.

Oregon Healthy Kids is a tremendously important program for families across the state. The new Oregon Health Authority, Office of Healthy Kids was created in August 2009, and since then has enrolled about 94,000 more children into the health coverage they need. As a result, Oregon cut its child uninsurance rate in half during this time, a significant achievement. We appreciate the efforts of the Oregon Audits Division to help us make this highly successful program even stronger.

Healthy Kids has instituted a tighter tracking and filing system for purchase orders, invoices and contracts that will help make sure that all required documentation is obtained and saved. In addition, Healthy Kids has instituted a tighter tracking and filing system for advertising purchases and will explicitly require proof of purchase in all advertising contracts. Although Healthy Kids staff did catch the duplicate payment found by the audit prior to the start of the audit and recently received a credit for the remaining \$541 outstanding costs, we are in agreement that more systemized tracking methods could further reduce the possibility of any future over or duplicate payments. Office of Healthy Kids staff have already met with staff from other programs within the Department of Human Services to review their invoice tracking tools and will require all invoices be checked against purchase orders and payments before being submitted for payment.

The Oregon Health Authority has updated its delegated authority policy, procedures and form and is implementing a new delegated authority system that will provide better tracking and reporting of delegations. In addition, the agency is

Mr. Gary Blackmer, Director  
Oregon Audits Division  
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in the process of completing a full roll-out of the new delegation form for all staff with expenditure authority.

Further, the three coding errors identified during the audit have been corrected and the appropriate reimbursement rate recorded.

Thank you again for the opportunity to address the recommendations included in the draft audit report. Please feel free to contact Roger Staples, Budget & Finance Section Manager, Division of Medical Assistance Programs; Cathy Kaufmann, Administrator, Office of Client & Community Services and Office of Healthy Kids or Dave Lyda, Chief Audit Officer for DHS and OHA, if you have any questions regarding this response.

Sincerely,



Suzanne Hoffman,  
OHA Chief Operating Officer



Jim Scherzinger,  
DHS Chief Operating Officer

cc: Bruce Goldberg, OHA Director  
Erinn Kelley-Siel, DHS Director  
Judy Mohr-Peterson, Director, Division of Medical Assistance Programs  
Tina Edlund, Chief of Policy, Oregon Health Authority  
Cathy Kaufmann, Administrator, Office of Client & Community Services and Office of Healthy Kids  
Roger Staples, Budget & Finance Section Manager, Division of Medical Assistance Programs  
Dave Lyda, Chief Audit Officer, DHS and OHA

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## About the Secretary of State Audits Division

The Oregon Constitution provides that the Secretary of State shall be, by virtue of her office, Auditor of Public Accounts. The Audits Division exists to carry out this duty. The division reports to the elected Secretary of State and is independent of the Executive, Legislative, and Judicial branches of Oregon government. The division audits all state officers, agencies, boards, and commissions and oversees audits and financial reporting for local governments.

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### **Audit Team**

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The courtesies and cooperation extended by officials and employees of the Oregon Health Authority and the Department of Human Services during the course of this audit were commendable and sincerely appreciated.