

Office of the Secretary of State

Bill Bradbury
Secretary of State

Jean Straight
Deputy Secretary of State



Audits Division

Charles A. Hibner, CPA
Director

255 Capitol Street NE, Suite 500
Salem, OR 97310

(503) 986-2255

fax (503) 378-6767

March 10, 2008

Howard "Rocky" King, Administrator
Office of Private Health Partnerships
250 Church Street SE, Suite 200
Salem, Oregon 97301-3921

Dear Mr. King:

We have completed the statewide single audit that included a selected federal program at the Office of Private Health Partnerships (department) for the year ended June 30, 2007.

This audit work is not a comprehensive audit of your federal program. Instead, the audit work performed allowed us, in part, to achieve the following objectives: (1) determine whether the state has complied with laws, regulations, contracts or grants that could have a direct and material effect on the major federal program and (2) determine whether the state has effective internal controls over compliance with the laws, regulations, contracts and grants applicable to the federal program.

We audited the following federal program at the department to determine whether the department substantially complied with the federal requirements relevant to the federal program. Our audit does not provide a legal determination of the department's compliance with those requirements. The results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133.

<u>CFDA Number</u>	<u>Program Name</u>	<u>Audit Amount</u>
93.767	State Children's Health Insurance Program	\$21,714,360.90

In planning and performing our audit, we considered the department's internal control over compliance with requirements that could have a direct and material effect on the federal program in order to determine our auditing procedures for the purpose of expressing our opinion on the department's compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the department's internal control over compliance.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control. As discussed below, we identified a deficiency in internal control that we consider to be a material weakness.

A control deficiency in an entity’s internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity’s ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity’s internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity’s internal control. We believe the following deficiency constitutes a material weakness in internal control:

Eligibility and Allowable Costs (Material Weakness – Internal Control)

The Office of Private Health Partnerships (department) administers the Family Health Insurance Assistance Program (FHIAP). Through FHIAP, eligible uninsured Oregonians can receive premium subsidies for the purchase of private health insurance. State Children’s Health Insurance Program (SCHIP) funds are used to pay the insurance premium subsidies and costs associated with administering FHIAP.

Federal requirements state that eligibility for SCHIP is to be determined every 12 months; subsidy payments are only allowable for insurance plans that meet the federal benchmark and should not include administrative costs related to premiums covered under COBRA;¹ an applicant’s income cannot exceed 185 percent of the federal poverty level; and, an applicant’s liquid assets cannot exceed \$10,000. In our review of 61 case files, we identified errors in eligibility determinations and subsidy payment calculations. Specifically, we found the following:

1. Subsidy payments were made after the 12 month eligibility period for four of the case files reviewed. When the redetermination was performed, the individuals were determined ineligible. Total questioned costs are \$2,258.
2. Subsidy payments were made toward a plan that did not meet the federal benchmark. The department’s information system correctly coded the subsidy to be paid with state funds. However, the department manually changed the transaction coding, without management review, causing the subsidy to be funded with SCHIP funding. Total questioned costs are \$491.

¹ The Consolidated Omnibus Budget Reconciliation Act (COBRA) was passed in 1986 and helps workers and their families keep their group health coverage during times of voluntary or involuntary job loss and certain other cases. The law gives workers the right to choose to temporarily continue group health benefits provided by the plan under certain circumstances where coverage under the plan would otherwise end.

3. Subsidy payments for one of the case files reviewed inappropriately covered the 2 percent administrative fee for insurance coverage through COBRA, resulting in questioned costs totaling \$166.
4. An incorrect family size was entered into the department's information system, which resulted in the use of an incorrect subsidy percent and questioned costs of \$209.
5. An applicant's subsidy level was calculated by the department based on wage information obtained from a state database rather than the pay stubs supplied by the applicant for the time period. As a result, the applicant's subsidy level was incorrectly calculated to be 90 percent instead of the 50 percent calculated using pay stubs. The subsidy was incorrectly funded with Medicaid and SCHIP funds instead of totally funded by SCHIP funds. This error resulted in an overpayment of Medicaid funds of \$1,499 and an overpayment of SCHIP funds of \$1,166.
6. An applicant's case file was not complete and did not include sufficient documentation to verify eligibility. The department had tax records indicating the applicant had a bank account even though the applicant did not identify the account on their application. Bank account information is important in determining eligibility as it provides support for the amount of the client's liquid assets.

During the audit period, the department implemented procedures to review eligibility determinations, case files, and payments made. However, because those procedures were recently implemented and we noted current year exceptions, we were unable to determine whether those procedures were working as intended by management.

In total, we identified \$4,290 in questioned costs for SCHIP. When projected to the population, questioned costs exceed \$10,000.

We recommend department management evaluate their review process over eligibility determinations and subsidy payment calculations to ensure the process is working as intended and payments are made only for eligible individuals. We also recommend the department strengthen its payment review process to ensure all coding changes have documented support and are appropriately approved. Further, we recommend the department recover overpayments made.

In the prior fiscal year, a material weakness was reported to you in a letter dated February 14, 2007, related to allowable activities of the State Children's Health Insurance Program. This finding can also be found in the Statewide Single Audit Report for the fiscal year ended June 30, 2006; see audit report number 2007-06 and finding No. 2006-12. During the current fiscal year, the department made progress in correcting this finding. It will be reported in the Statewide Single Audit Report for the fiscal year ended June 30, 2007, which will be issued in March 2008, with a status of partial corrective action taken.

Maintenance of Effort – Advance Subsidy Payments (Noncompliance)

In 2002 the Centers for Medicare and Medicaid Services authorized a five-year waiver associated with the Oregon Health Plan 2 and includes the Family Health Insurance Assistance Program (FHIAP). The waiver required the amount of state funds expended for the FHIAP program be maintained or increased above the state fiscal year 2002 level during the operation of the waiver. The waiver also allowed insurance premium subsidies for certain persons over the age of 18 (adults) and eligible for FHIAP to be paid for with State Children’s Health Insurance Program (SCHIP) funding. The waiver expired as of October 31, 2007.

In order to meet the maintenance of effort requirement as of October 31, 2007, the Office of Private Health Partnerships (department) made advanced payments for insurance premium subsidies for the periods of December 2007 through February 2008. Per the department, it only prepaid insurance premium subsidies to certain insurance carriers because those premiums remain constant throughout the year. Further, it ensured that insurance premium subsidies were advance funded only for individuals who had a history of paying the member portion on time.

Although the department took great care in determining which insurance premium subsidies to prepay, we question whether advanced payments are allowed to be counted toward meeting the department’s maintenance of effort because they were paid prior to the department incurring an obligation to pay the premiums. Had the department not made the advanced insurance premium subsidy payments, it would not have met the required maintenance of effort.

In addition, the advanced insurance premium subsidy payments noted above and the subsidy payments for the November 2007 insurance premiums included payment for adults. Insurance premiums for adults were no longer allowed to be funded with SCHIP funding as of November 1, 2007, due to the expiration of the waiver noted above. Even though they were determined eligible at the time the subsidies were paid (October 2007), they were not eligible in the time period covered by the insurance (November 2007 through February 2008). SCHIP funded subsidies paid in October 2007 that were for premiums covering November 2007 through February 2008 totaled \$4.2 million.

We recommend department management consult with the Center for Medicare and Medicaid Services to determine whether it was appropriate to prepay subsidy payments to meet the maintenance of effort requirements and regarding the allowability of advance insurance premium subsidies funded with SCHIP for ineligible adults.

In addition to the material weakness and noncompliance identified above, we identified an other matter that warrants management’s attention.

Calculation of Resources – Eligibility (Other Matter)

The Office of Private Health Partnerships (department) administers the Family Health Insurance Assistance Program (FHIAP). Through FHIAP, eligible individuals or families receive subsidies to help pay the cost of health insurance. State Children’s Health Insurance Program (SCHIP) is one of the funding sources for FHIAP. As part of the eligibility determination process, an applicant must declare that their liquid assets do not exceed \$10,000. The approved SCHIP state plan lists IRAs as one of the liquid assets. However, as a practice, the department specifically excludes IRAs from eligibility determination.

By not including IRAs, the department is not in compliance with the federally approved SCHIP State Plan. The revised state plan, submitted to the federal government in November 2007, excludes IRAs as part of the liquid assets and is consistent with the department’s practice.

We recommend department management ensure all program policies are consistent with the SCHIP State Plan.

The material internal control weakness and the noncompliance finding, along with your responses, will be included in our Statewide Single Audit Report for the fiscal year ended June 30, 2007. Including your responses satisfies the federal requirement that management prepare a Corrective Action Plan covering all reported audit findings. Satisfying the federal requirement in this manner, however, can only be accomplished if the response to each material weakness and noncompliance includes the information specified by the federal requirement, and only if the responses are received in time to be included in the audit report. The following information is required for each response:

- (1) Your agreement or disagreement with the finding. If you do not agree with an audit finding or believe corrective action is not required, include in your response an explanation and specific reasons for your position.
- (2) The corrective action planned.
- (3) The anticipated completion date.
- (4) The name(s) of the contact person(s) responsible for corrective action.

Please respond by March 13, 2008. The other matter does not require a written response. We will follow up on the department’s progress in addressing these issues during the next fiscal year audit.

This communication is intended solely for the information and use of management and others within the organization and is not intended to be and should not be used by anyone other than the specified parties.

Howard "Rocky" King, Administrator
Office of Private Health Partnerships
Page 6

Should you have any questions, please contact Amy Palacios or me at (503) 986-2255.

Sincerely,
OREGON AUDITS DIVISION

Kelly L. Olson, CPA
Audit Manager

KLO:brk

cc: Cindy Bowman, Projects Coordinator
Becky Frederick, Business Services Manager
Craig Kuhn, FHIAP Program Manager
John McLean, FHIAP Operations Manager
Perry DeJoode, FHIAP Eligibility Unit Manager
Scott Harra, Director, Department of Administrative Services