

Office of the Secretary of State

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March 23, 2009

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

Dear Mr. King:

We have completed audit work of a selected federal program at the Office of Private Health Partnerships (department) for the year ended June 30, 2008.

This audit work is for the statewide single audit and 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 each major federal program and (2) obtain an understanding of the state's internal controls over compliance with the laws, regulations, contracts and grants applicable to federal programs.

We audited the following federal program at the department to determine whether the department substantially complied with federal requirements relevant to the federal program. Our audit does not provide a legal determination of the department's compliance with those requirements.

CFDA Number	Program Name	Audit Amount
93.767	State Children's Insurance Program	\$15,398,630

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.

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.

Our consideration of internal control was for the limited purpose described in the preceding paragraphs and would not necessarily identify all deficiencies in internal controls. However, as

discussed below, we identified deficiencies in internal control that we consider to be significant deficiencies or material weaknesses.

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 that the following findings are instances of noncompliance required to be reported and/or material weakness in internal control as identified.

Federal Benchmarks Not Met
Activities Allowed or Unallowed
Material Weakness

The department operates under a federal waiver that requires health coverage plans to meet federal benchmarks. The department uses a benchmark worksheet to ensure benchmarks are included in the coverage; however, this worksheet has not been updated to include all the requirements outlined in the waiver such as mental health services. As a result, the department approved health coverage that did not include mental health services and therefore did not meet the federal benchmark.

We tested a sample of 60 subsidy payments issued during fiscal year 2008 and found that 24 of the payments were for coverage that did not meet the benchmark requiring mental health services. We also found that seven of the nine health insurance plans represented in the sample did not include mental health services.

We recommend department management implement procedures to ensure the benchmark worksheets include all the required federal benchmarks. We further recommend department management ensure all approved health insurance plans are in compliance with current benchmark requirements.

Untimely Eligibility Redeterminations
Eligibility – Questioned Costs \$2,990
Material Weakness

The department administers a program to subsidize eligible Oregonian’s private health insurance premiums. Eligibility is established based on criteria outlined in a federal waiver. One specific requirement is that eligibility redeterminations be performed at least once every 12 months. We tested 60 case files and found that during fiscal year 2008 the department did not perform timely eligibility redeterminations for 29 of those cases. We also noted one income calculation error

and two instances in which the department did not pursue proof of citizenship as required by federal regulation. The known questioned costs total \$2,990.

We have reported eligibility internal control issues for the past two fiscal years. The department has made progress in identifying and correcting errors. For the current year, we identified fewer calculation and input errors than in prior years; however, we identified more cases in which eligibility redeterminations were not made timely. According to the department, the increase is a result of prior fiscal years caseload issues and redirected work assignments as the department focused on meeting its federal requirement related to maintenance of effort.

We recommend department management continue to improve their eligibility review process. We also recommend the department determine the amount of State Children’s Insurance Program funds that should be refunded to the appropriate federal agency.

Potentially Unallowable Health Coverage
Activities Allowed or Unallowed – Questioned Costs \$9.4 Million

The department administers a program to subsidize eligible Oregonian’s private health insurance premiums. The department uses State Children’s Insurance Program (SCHIP) funds to pay the insurance premium subsidies under a waiver approved by the Centers for Medicare and Medicaid Services.

Federal regulations specifically address an exclusion for the use of SCHIP funds; SCHIP funds may not be expended to assist in the purchase, in whole or in part, of health coverage that includes coverage of abortion, except under specific circumstances outlined in CFR Title 42. Based on discussions with the department, as the department subsidizes a person’s private health insurance the department does not have the ability to require this exclusion in the plans. Therefore, the department does not ensure the health insurance plans subsidized with SCHIP funds exclude abortion coverage except as allowable per federal regulations.

We reviewed one of the nine health coverage plans present in our sample. We found that the plan did not specifically exclude coverage for abortion services. Total payments to this health coverage plan during fiscal year 2008 totaled \$9.4 million (more than 60 percent of SCHIP funds expended by the department).

We recommend department management work with the federal government to determine whether it is allowable for the program to pay insurance premiums for private health insurance plans that do not specifically exclude abortion coverage.

Ineligible Clients Funded
Eligibility – Questioned Costs \$55,000

During fiscal year 2008, the department administered a program that allowed eligible Oregonians to receive insurance premium subsidies for the purchase of private health insurance. Effective November 1, 2007, adults were no longer eligible for State Children’s Insurance Program (SCHIP) funding as the federal waiver allowing it expired.

The department made a coding error when recording a subsidy payment in the State’s accounting system and the error was not discovered by the department during its transaction review process.

As a result, \$55,000 of SCHIP funds were used to subsidize insurance premiums for adults when the premiums should have been subsidized with Medicaid or state funds.

We recommend department management correct the accounting transaction and determine the amount of SCHIP funds that should be refunded to the appropriate federal agency. We also recommend department management ensure the transaction approval process is adequate to ensure coding is entered accurately.

Advanced Subsidy Payments

Maintenance of Effort and Eligibility – Questioned Costs – \$4.6 Million

In 2002 the Centers for Medicare and Medicaid Services (CMS) authorized a five-year waiver, expiring October 31, 2007, that allowed eligible uninsured children and adults to receive insurance premium subsidies for the purchase of private health insurance. The waiver also included a maintenance of effort requirement that the amount of state funds expended for the program be maintained or increased above the state fiscal year 2002 level.

To meet the maintenance of effort requirement as of October 31, 2007, the department made advanced subsidy payments to three private insurance carriers for the period of December 2007 through February 2008. The department had not yet incurred an obligation to pay the insurance premium subsidies. If the department had not paid the insurance premium subsidy payments in advance, it would not have met the required maintenance of effort by approximately \$2 million.

In addition, effective November 1, 2007, adults became ineligible for State Children’s Insurance Program (SCHIP) funding, as the waiver that allowed it had expired. The department used \$4.6 million of SCHIP funding to prepay insurance premium subsidies for adults from November 2007 through February 2008. If the prepayment had not occurred, the department would have paid the subsidies with either Medicaid funds, if eligible, or state funds.

Noncompliance with the maintenance of effort requirement specified in the waiver could result in disallowed costs. Further, if prepayment for adults using SCHIP funding is determined to be non-compliant, the federal government could require the department to repay the disallowed costs of \$4.6 million.

We recommend department management consult with CMS to determine whether subsidy prepayments are allowed to be counted toward maintenance of effort, and whether prepayments made for adults were allowable since the adults were ineligible for SCHIP funding for the time period prepaid.

We reported this finding in our Single Audit Report for fiscal year 2007 as finding number 07-41. We are re-reporting because the department did not consult with the federal agency as recommended.

The material weaknesses and noncompliance findings, along with your responses, will be included in our Statewide Single Audit Report for the fiscal year ended June 30, 2008. 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 be accomplished only if the response to the findings 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 the 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.

This communication is intended solely for the information and use of management, the Office of Private Health Partnerships, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Should you have any questions, please contact me at (503) 986-2349.

Sincerely,
OREGON AUDITS DIVISION

Kelly L. Olson, CPA
Audit Manager

KLO:brk

cc: Cindy Bowman, Projects Coordinator
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