AUDITOR GENERAL

WILLIAM O. MONROE, CPA

AGENCY FOR HEALTH CARE ADMINISTRATION

FLORIDA KIDCARE PROGRAM

MONITORING AND OTHER ISSUES

Operational Audit

SUMMARY

The Florida KidCare Program was created to provide health care benefits to previously uninsured, low-income children. The Agency for Health Care Administration (AHCA) is the lead State agency for the Federally funded portion of the KidCare Program. The Florida Healthy Kids Corporation (FHKC), under contract with AHCA, is the largest of several providers of KidCare services. FHKC responsibilities include eligibility determination, collection of premiums, contracting with authorized insurers, and the development of benefit packages. Approximately $531 million was budgeted for the KidCare Program (excluding Children's Medicaid) for the 2004-05 fiscal year. Of that amount, $398 million was budgeted for FHKC.

The audit, for the period July 2004 through March 2005, and selected actions taken through June 2005, disclosed the following issues related to Program monitoring and hurricane-related premium waivers:

AHCA Monitoring

Finding No. 1: AHCA should enhance procedures to ensure that funds advanced to FHKC are reflective of FHKC's current level of spending. Reductions in the level of enrollment resulted in a surplus of $20 million in State funds advanced over actual FHKC disbursements as of March 2005.

Finding No. 2: AHCA did not document its approval of FHKC's increase in the administrative rate from $3.33 to $6.00 per child per month. Further, FHKC could not document the reasonableness of the rate.

Finding No. 3: AHCA did not periodically verify capitation rates and enrollment counts reported on monthly invoices submitted by FHKC. In one instance, the capitation rate paid by FHKC to an insurance company was not in accordance with contracted rates, resulting in a $607,783 overpayment over a six-month period.

Finding No. 4: AHCA did not adopt rules relating to the KidCare Program as statutorily required.

FHKC Monitoring

Finding No. 5: Although FHKC contracted with a third party administrator to perform eligibility determinations for the KidCare Program, FHKC retained certain monitoring responsibilities. Given recent Program changes, FHKC monitoring efforts were insufficient to timely detect and correct errors in eligibility determinations.

Hurricane-Related Premium Waivers

Finding No. 6: FHKC, without prior authorization, waived clients' insurance premiums during the 2004 active hurricane season.

Finding No. 7: As of June 1, 2005, FHKC had not remitted premium payments totaling approximately $1.6 million collected on behalf of the Children's Medical Services Program and the MediKids Program to AHCA as required by contract.

BACKGROUND

The Florida KidCare Program was created to provide health care benefits to previously uninsured, low-income children through the establishment of a variety of affordable health benefit coverage options from which families may select coverage and through which families may contribute financially to the health care of their children.[1] The majority of the children served under the KidCare Program are Federally subsidized under Medicaid or the State Children's Insurance Program (also known as Title XXI of the Social Security Act). Title XXI subsidized clients have family incomes that exceed Medicaid thresholds but are less than 200 percent of the Federal poverty level (FPL). Subsidized clients pay a $15 or $20 premium per month per family. The KidCare Program also allows a limited number of children to participate that are not eligible for premium assistance (i.e., full-pay clients). Full-pay clients pay approximately $110 per month per child.

AHCA is designated as the lead State agency for Title XXI for purposes of receipt of Federal funds, reporting, and ensuring compliance with Federal and State regulations and rules. The KidCare program components include Florida Healthy Kids, MediKids, Children's Medical Services Program (CMS), and Children's Medicaid (see Exhibit A). Florida Healthy Kids represent approximately 88 percent of the children in the KidCare Program excluding Children's Medicaid.

FHKC, a not-for-profit entity, was created by the Legislature to serve as a provider of services to children eligible for health care assistance under Title XXI.[2] The vast majority of FHKC's funding is provided by AHCA. FHKC operates subject to the supervision and approval of a Board of Directors. The Board is chaired by the State's Chief Financial Officer (or designee), and includes ten other members. The members include: the Secretary of Health Care Administration (or designee); the State Health Officer (or designee); and eight members appointed by the Governor, the Chief Financial Officer, and the Commissioner of Education to represent various interested parties. FHKC contracts with a third party administrator (TPA) to perform the application scanning, data entry, and eligibility determinations for all applicants regardless of which KidCare Program component the child may be enrolled in. The TPA screens the applicants for potential Medicaid eligibility and, if ineligible for Medicaid, determines eligibility for the KidCare Program.

Federal regulations require pass-through entities to monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.[3] State funded programs would include similar subrecipient monitoring procedures. Monitoring activities might include on-site reviews, invoice reviews, reviews of audit reports if applicable, and miscellaneous communications and meetings.

FINDINGS AND RECOMMENDATIONS

As described in the background and Exhibit A, the KidCare Program includes various entities and funding sources. Inherent to such a decentralized Program are communication and oversight challenges. The establishment and effective dissemination of policies and procedures, proper training on entity responsibilities, and monitoring of the delivery of services are key to ensuring that Program resources are successfully applied in compliance with governing laws, rules, and other guidelines. In this report, we describe deficiencies related to monitoring activities at AHCA and FHKC. These findings are indicative that management had not established the necessary processes and controls to sufficiently minimize the risks associated with the Program.

[1] Section 409.812, Florida Statutes
[2] Section 624.91, Florida Statutes
[3] OMB Circular A-133, § __.400(d)

AHCA Monitoring

Finding No. 1: FHKC Contract Payments

The contract between FHKC and AHCA authorized FHKC to receive State funds, including General Revenue Fund moneys and tobacco funds, on an advance basis. Federal funds are received monthly on a reimbursement basis. At the end of each quarter, FHKC was required to complete a reconciliation between actual expenditures and the amount advanced and remit interest earned on the advanced funds to AHCA. Reconciliations were required within 45 days of the end of each quarter and any unearned funds from previous quarterly advances should be withheld from the next scheduled quarterly advance.

During the audit period, FHKC did not complete the reconciliations within the required time frame. The reconciliations for the fiscal year quarters ended September 2004, December 2004, and March 2005 were remitted 79, 109, and 37 days late, respectively. FHKC indicated the reconciliations were late due to a new general ledger software program and transition at FHKC's chief financial officer position. While AHCA did withhold the third quarter advance until the first quarter reconciliation was received, AHCA did not reduce advances to reflect decreased disbursements by FHKC. This created a surplus of approximately $20 million in the amount of State funds advanced during the period July 2004 through March 2005, compared to the State share of expenditures as reported on Federal requests for reimbursement. AHCA indicated that it would conduct a full reconciliation at the end of the fiscal year and withhold funds from a future advance in the 2005-06 fiscal year if there were unspent funds from the 2004-05 fiscal year.

Recommendation: We recommend AHCA revise the FHKC contract to ensure payments more accurately reflect actual FHKC disbursements (i.e., monthly advances or reimbursements). We also recommend that FHKC implement procedures to ensure reconciliations are prepared on a timely basis and, if applicable, reduce requests for advances based on projected disbursements.

Finding No. 2: FHKC Administrative Rate

Federal regulations[4] limit non-primary expenditures (including administrative costs) to ten percent of expenditures. AHCA has the responsibility to ensure compliance with this requirement on a Statewide basis. FHKC administrative costs were invoiced based on the actual number of participants multiplied by an administrative rate. However, the administrative rate was not established in the FHKC contract. Beginning with the August 2004 invoice period, FHKC increased the administrative rate from $3.33 to $6.14 per child. The administrative rate was reduced in October 2004 from $6.14 to $6.00. FHKC indicated that the increase was due to eligibility determination renewal costs, but neither AHCA nor FHKC were able to provide support for the rate changes.

Recommendation: To ensure that FHKC administrative charges are based on reasonable and allowable costs, FHKC should provide documentation of rate changes to AHCA prior to approval for payment. In order to more actively control administrative spending, AHCA should also include the administrative rate in the FHKC contract.

Finding No. 3: Invoice Reviews

FHKC submitted monthly invoices to AHCA for Federal reimbursement of programmatic and administrative costs. The programmatic costs were supported by a list of insurance provider capitation rates and the number of children and families enrolled with each insurance provider by county. AHCA did not periodically review the invoices to verify the enrollment counts or capitation rates reported. AHCA last reviewed enrollment records in November 2001.

Our review of three FHKC invoices disclosed errors in the invoiced capitation rate for one insurance

[4] Title 42, Code of Federal Regulations, Section 457.618

company. The error resulted in a $607,783 overpayment to the insurance company for the six-month period October 2004 through March 2005. Subsequent to audit inquiry, FHKC applied a credit for the error.

Recommendation: AHCA should improve monitoring procedures to ensure FHKC is adequately reviewing invoices prior to payment or increase the level of review during the invoice approval process to include periodic verification of capitation rates and enrollment counts. In addition, FHKC should ensure that payments to insurance providers are in accordance with contracted rates.

Finding No. 4: KidCare Administrative Code

Florida Statutes[5] require AHCA to adopt rules necessary for calculating premium assistance payment levels, calculating enrollment ceilings, making premium assistance payments, monitoring access and quality assurance standards, investigating and resolving complaints and grievances, administering the MediKids Program, and approving health benefits coverage. The importance of calculating enrollment ceilings is highlighted by the recent fluctuations in Program enrollment. Quality assurance standards are also significant due to statutory changes in income documentation requirements.

As of August 31, 2005, AHCA had not promulgated rules for the KidCare Program. AHCA indicated that since the Program's Title XXI inception in 1998, AHCA had been relying on Federal regulations and the State Plan due to the numerous changes in the Program. In a memorandum dated June 21, 2005, AHCA staff stated that KidCare representatives from AHCA, DOH, and DCF had met in November 2004 to discuss this issue and would meet soon to continue development.

Recommendation: In order to allow for public input and to help ensure consistent application of Program policies and procedures, AHCA should promulgate rules as required by law.

[5] Section 409.818(3)(g), Florida Statutes

FHKC Monitoring

Finding No. 5: FHKC Eligibility Monitoring

As noted above, FHKC contracted with a TPA to determine KidCare eligibility. To monitor compliance with eligibility standards, FHKC performed two types of eligibility monitoring: client reviews and file reviews.

Client Reviews

Client reviews were conducted to ensure that families' eligibility information was current. These reviews were based on documentation requested directly from KidCare clients. FHKC procedures state that clients tested will exclude those renewed within the last 90 days or due to be renewed within 90 days. Procedures indicate FHKC will test 120 accounts per quarter and that the results will be communicated to the TPA for system revision. Our review of FHKC's client review process disclosed that improvements could be made to ensure that the reviews are conducted in a timely manner and information is appropriately updated in the TPA's eligibility system, as discussed below.

According to FHKC policy, a family has three weeks to comply with the initial audit request. If the family does not provide all information required, an incomplete letter is sent to the parent requesting the missing information and extending the deadline for two weeks. If the parents do not comply, they are sent a cancellation letter 30 days prior to the cancellation date. FHKC's policy to work with the client allowing them to submit documentation piecemeal can prolong the review for several months during which time the client continues to receive benefits.

The client reviews for the quarter ended September 2004 began October 20, 2004. As of February 21, 2005, out of 120 families selected for audit: 14 families (12 percent) still needed additional information to complete the review; 37 families (31 percent) were cancelled due to non-compliance; and 4 families (3 percent) were otherwise cancelled. Delays in the review process diminish the effectiveness of the testing because results are not recorded into the client's record if the renewal process has begun.

Our review of ten FHKC client reviews noted two instances where the results were not properly reflected in the TPA's eligibility system. While the revised income amounts were posted in the TPA's eligibility system, the resulting changes were not made (i.e., the clients' premium levels were not changed as a result of the higher income). FHKC indicated the problem was due to a coding error in the TPA's eligibility system which was subsequently corrected.

File Reviews

FHKC file reviews test the accuracy of the TPA's eligibility determinations and record keeping. FHKC tested between 25 and 30 clients monthly during October through December 2004 (covering July through October 2004 applicants). The overall accuracy rates for the three months ranged from 62 percent to 76 percent. The accuracy rates were likely impacted by a statutory change which required the submission of income documentation effective July 2004. The results of our tests of eligibility determinations will be addressed in a separate report.

Recommendation: FHKC should revise the policy relating to client reviews to ensure that they are completed on a more timely basis. Also, due to the level of errors noted during the test of the TPA's eligibility determinations, we recommend that FHKC evaluate the causes of the errors noted and seek improvements in the TPA's eligibility determination process.

Hurricane-Related Premium Waivers

Finding No. 6: Hurricane-Related Premium Credits

Due to an active hurricane season, an emergency order was filed on September 10, 2004, by the Office of Insurance Regulation. Due to disruptions brought on by the storms, it was ordered that from September 1, 2004, through October 15, 2004, no insurer or regulated entity shall cancel or non-renew a policy or contract of insurance or issue a notice of cancellation or non-renewal, covering a person, property or risk in the State, unless requested by the insured. The order stated that nothing shall be construed to exempt or excuse an insured from liability for premiums otherwise due for actual coverage provided. A press release on October 7, 2004, from the Office of the Governor clarified that KidCare children would be covered under the emergency order. Governor Bush directed KidCare officials to suspend all cancellations of coverage through November 1, 2004.

Based on a FHKC interpretation of the emergency order, FHKC initiated a waiver of premiums for all active families in the KidCare Program for the months of September, October, and November 2004. This waiver was applied as a premium credit to all KidCare clients and included credits for all families that had paid their premium timely. FHKC management stated that the hurricane-related credits were discussed with the Executive Committee of the Board[6]; however, Board minutes did not indicate approval of the waiver.

In the monitoring report based on a visit on October 21, 2004, AHCA indicated FHKC should advise AHCA of changes that require an amendment to the Title XXI State Plan, such as the hurricane-related premium credits. AHCA initiated a request for Federal approval of the waiver of premiums in the form of a State Plan amendment. The amendment was submitted to the United States Department of Health and Human Services in December 2004 and was approved in February 2005. However, the State Plan amendment was only applicable to the waiver of premiums due from Title XXI clients.

Based on information provided by FHKC, the total calculated cost of the hurricane-related premium credits equaled $11.9 million: $8.6 million for Title XXI clients, $3 million for non-subsidized clients (i.e., full-pay), and $.3 million for non-Title XXI subsidized clients (i.e., State or locally subsidized). FHKC amounts were calculated based on the total amount of

[6] Includes the Chairman, Vice Chairman, and Secretary/Treasurer.

premiums waived. The actual cost of the waivers will be reflected as utilized by individual families.

Recommendation: Without specific authority granted by either the Executive Order, AHCA as the Title XXI lead agency, or the Board of Directors for non-Title XXI clients, FHKC should refrain from any unilateral waiver of client premiums. We also recommend that AHCA timely conduct a detailed review of the hurricane-related credits to ensure proper accounting and reporting of the credits as applied.

Finding No. 7: CMS and MediKids Premiums

FHKC is responsible for collecting premiums for the KidCare Program. FHKC is required to remit the premium payments received on behalf of children enrolled in the CMS and MediKids Programs to AHCA on a monthly basis. As noted above, for the months September, October, and November 2004, FHKC waived the premiums for KidCare clients. Since October 2004, FHKC had not remitted CMS or MediKids premiums to AHCA. The amount of premiums collected by FHKC between November 2004 and May 2005 totaled $1,660,955 for CMS and MediKids children. Subsequent to audit inquiry, FHKC remitted payment of $845,902 for CMS and MediKids premium collections. However, the payment was based on actual collections through June 2005, less a reduction of approximately $1 million for hurricane-related credits as calculated by FHKC. Since the hurricane-related credits are non-refundable, it is not apparent why collections should be reduced for the calculated cost of the hurricane-related credits (i.e., the reductions should be reflected in actual collections as the credits are applied on an individual basis).

Recommendation: FHKC should remit to AHCA all remaining premium collections.

OBJECTIVES, SCOPE, AND METHODOLOGY

The overall objectives related to our audit of the KidCare Program were to obtain an understanding of internal controls and make judgments as to the effectiveness of those internal controls and to evaluate management's performance in achieving compliance with controlling laws, administrative rules, and other guidelines; the economic, efficient, and effective operation of the Program; the validity and reliability of records and reports; and the safeguarding of assets.

The scope of the audit as it relates to this report focused on AHCA's monitoring of FHKC, general administrative issues, and FHKC's monitoring of their third party administrator.

In conducting our audit, we interviewed personnel, observed processes and procedures, examined selected transactions, and completed various analyses and other procedures as determined necessary. Our audit included examinations of various transactions (as well as events and conditions) occurring during the period July 2004 through March 2005, and selected actions taken through June 2005.

Chapter 2004-1, Laws of Florida, implemented numerous changes to the KidCare Program and directed the Auditor General to perform periodic audits through the 2005-06 fiscal year to ensure that children enrolled in the Florida Healthy Kids Program are eligible pursuant to Sections 409.814 and 624.91, Florida Statutes. Our audit of eligibility determinations will be addressed in a separate report.

AUTHORITY

Pursuant to the provisions of Section 11.45, Florida Statutes, I have directed that this report be prepared to present the results of our operational audit.

William O. Monroe, CPA
Auditor General

AUDITEE RESPONSE

In letters dated October 14, 2005, and October 21, 2005, the Secretary of the Agency for Health Care Administration and the Executive Director of Florida Healthy Kids Corporation, respectively, provided responses to our preliminary and tentative findings. These letters are included in their entirety at the end of this report as Exhibits B and C.

To promote accountability in government and improvement in government operations, the Auditor General makes operational audits of selected programs, activities, and functions of State agencies. This operational audit was made in accordance with applicable ***Governmental Auditing Standards*** issued by the Comptroller General of the United States. This audit was conducted by Samantha Colbert, CPA and supervised by Peggy Miller, CPA. Please address inquiries regarding this report to Jane Flowers, CPA, Audit Manager, via e-mail at janeflowers@aud.state.fl.us or by telephone at (850) 487-9136.

This report and other audit reports prepared by the Auditor General can be obtained on our Web site (http://www.state.fl.us/audgen); by telephone (850 487-9024); or by mail (G74 Claude Pepper Building, 111 West Madison Street, Tallahassee, Florida 32399-1450).

Exhibit A
KidCare Program Components

Program	Agency	Program Administered	Number Enrolled July 2005	Responsibilities
Medicaid Title XIX	Agency for Health Care Administration (AHCA)	Medicaid for Children[1] Age 0 (infants under one year) 185% FPL or below Ages 1 through 5 133% FPL or below Ages 6 through 18 100% FPL or below	1,254,274	• Lead State entity for the State Children's Insurance Program (Title XXI) and Medicaid (Title XIX). • Contracts with FHKC, DOH, and DCFS to provide related KidCare services. • Contracts with health care service providers for MediKids and Medicaid clients.
State Children's Insurance Program Title XXI[2]	Agency for Health Care Administration	MediKids Ages 1 through 4 133% to 200% FPL Medicaid for Children Age 0 (infants under one year) 185% to 200% FPL	15,833 1,223	
	Florida Healthy Kids Corporation (FHKC)	Florida Healthy Kids Age 5 133% to 200% FPL Ages 6 through 18 100% to 200% FPL Ages 5 through 18 Clients ineligible for subsidy can participate but receive no premium assistance. (26,009 enrollees)	177,721	• Not-for-profit entity responsible for KidCare application scanning, data entry, and eligibility determinations other than Medicaid for Children.[3] • Contracts with health care service providers for Florida Healthy Kids clients.
	Department of Health (DOH)	Children's Medical Services (Physical Health) Age 0 (infants under one year) 185% to 200% FPL Ages 1 through 5 133% to 200% FPL Ages 6 through 18 100% to 200% FPL	7,656	• Conducts special health care needs (a child whose serious condition requires care beyond that of a healthy child) eligibility determinations.[4] • Contracts with health care service providers for CMS physical health clients.
	Department of Children and Families Services (DCFS)	Children's Medical Services (Mental Health) Ages 5 through 18 100% to 200% FPL	Included in DOH CMS count	• Responsible for determining Medicaid eligibility. • Administers the mental health component of the CMS program. • Contracts with health care service providers for CMS mental health clients.

Source: Florida KidCare Program State Plan, Florida Statutes, and www.floridakidcare.org

[1] Enrollees in Medicaid for Children can also be enrolled in Children's Medical Services (CMS)
[2] Title XXI requires a premium payment except for infants
[3] FHKC contracts with a third party administrator to provide services listed
[4] Section 409.811(6), Florida Statutes

EXHIBIT B

AHCA
FLORIDA AGENCY FOR HEALTH CARE ADMINISTRATION

JEB BUSH, GOVERNOR

ALAN LEVINE, SECRETARY

October 14, 2005

Mr. William O. Monroe
Auditor General
Room G74, Claude Pepper Building
Tallahassee, FL 32399-1450

RE: Response to preliminary and tentative findings, Florida KidCare Program

Dear Mr. Monroe:

Thank you for the opportunity to respond to your office's preliminary and tentative audit findings entitled *Florida KidCare Program Monitoring and Other Issues,* dated September 16, 2005.

We appreciate the efforts of your staff and have included our response to the recommendations noted in your report. AHCA continuously looks for opportunities to improve operations and is committed to providing cost-effective and efficient health care services to the citizens of Florida.

If you have any questions regarding our response, please contact Michael J. Bennett, Internal Audit Director, at (850) 922-8449.

Sincerely,

Alan Levine
Secretary

AL/mb
Enclosure

2727 Mahan Drive • Mail Stop #1
Tallahassee, FL 32308

Visit AHCA online at
ahca.myflorida.com

Agency for Health Care Administration

Response to Auditor General's P&T audit findings for *Florida KidCare Program, Monitoring and Other Issues, July 2004 through March 2005*

Finding 1: AHCA should enhance procedures to ensure that funds advanced to FHKC are reflective of FHKC's current level of spending. Reductions in the level of enrollment resulted in a surplus of $20 million in State funds advanced over actual FHKC disbursements as of March 2005.

Recommendation:
We recommend AHCA revise the FHKC contract to ensure payments more accurately reflect actual FHKC disbursements (i.e., monthly advances or reimbursements). We also recommend that FHKC implement procedures to ensure reconciliations are prepared on a timely basis and, if applicable, reduce requests for advances based on projected disbursements.

Agency Response:
The quarterly advances received by FHKC are based on funds allocated by the Legislature. Each year a new budget amendment to the contract between the Agency and FHKC is executed to update the amounts and payment schedule. The quarterly reconciliations are required so that any excess funds are withheld from the next quarterly advance.

The Agency was in communication with FHKC concerning the reconciliations and took appropriate steps to deal with the corporation's inability to produce the reconciliation on time. Each quarter the reconciliation was delayed, FHKC acknowledged they were still resolving their internal issues of a new general ledger system coupled with the absence of their CFO. On June 14, 2005, the Agency did request a corrective action plan from FHKC, to explain what steps would be taken to ensure that reconciliation delays do not recur. FHKC responded on July 8, 2005, explaining the reconciliations were late due to unusual circumstances, the problem has been resolved, the reconciliations are now current and no future delays will occur.

Entirely withholding the corporation's quarterly advance draw would have significantly affected the Corporation's ability and willingness to continue providing health care to several hundred thousand children. Without adequate advance funding, the corporation would have had the option of using their line of credit, at a substantial interest cost, or terminate coverage to children.

The Agency did withhold two-thirds of their fourth quarter advance, until the reconciliation was received June 21, 2005. The missing reconciliations have all been provided and subsequent reconciliations have been submitted within the contractual time schedule.

Finding 2: AHCA did not document its approval of FHKC's increase in the administrative rate from $3.33 to $6.00 per child per month. Further, FHKC could not document the reasonableness of the rate.

Recommendation:
To ensure that FHKC administrative charges are based on reasonable and allowable

costs, FHKC should provide documentation of rate changes to AHCA prior to approval for payment. In order to more actively control administrative spending, AHCA should also include the administrative rate in the FHKC contract.

<u>Agency Response:</u>
Amendment 1 to the Joint Agreement between the FHKC and AHCA, stipulates in Attachment II, section II (A) that the Agency will reimburse FHKC for 100% of their actual cost incurred, up to the amount specified in the contract, which changes each year based on annual appropriations. The contract further specifies in section II (B), that if the expenditures exceeds the appropriated amount that the Agency will seek a budget amendment to reimburse FHKC for the actual expenses, or FHKC will cease to provide those services.

The Agency understands that the KidCare program is subject to mandated legislative policy changes, which can have an effect on the cost of processing applications and redeterminations. The KidCare program went from passive, self-attestation to very strict documentation requirements. A change this significant requires additional staff and time to implement and handle the change on an ongoing basis, which is reflected in additional administrative costs.

On August 11, 2004, FHKC advised the Agency that the increase in the per member per month (PMPM) fee was due to the extensive new renewal process. DHACS, FHKC's third party administrator, was charging them $26.75 per renewal. Based on analysis conducted by FHKC, they projected the new PMPM cost to be $6.00. FHKC has now calculated the actual administrative cost for the past year to be $5.82 PMPM.

Even though AHCA contractually will reimburse for 100% of their actual costs, we agree that additional justification for future changes in administrative costs is appropriate. Part of this quarter's on-site monitoring will examine administrative costs. The new contract between the Agency and FHKC that becomes effective January 1, 2006, provides that FHKC must provide justification for all changes.

Finding 3: AHCA did not periodically verify capitation rates and enrollment counts reported on monthly invoices submitted by FHKC. In one instance, the capitation rate paid by FHKC to an insurance company was not in accordance with contracted rates, resulting in a $607,783 overpayment over a six-month period.

<u>Recommendation:</u>
AHCA should improve monitoring procedures to ensure FHKC is adequately reviewing invoices prior to payment or increase the level of review during the invoice approval process to include periodic verification of capitation rates and enrollment counts. In addition, FHKC should ensure that payments to insurance providers are in accordance with contracted rates.

<u>Agency Response:</u>
624.91, F.S. authorizes FHKC and their Board to contract with authorized insurers for the provision of health care coverage for their enrollees, and to negotiate those rates. The Agency reviews all invoices received by FHKC prior to authorizing payment. The invoices are checked for accuracy, however, the capitation rates included on the invoice were assumed to be correct, since the Agency is not a party to those negotiations. When conducting on-site monitoring, the Agency will review a sampling of the contracts FHKC has with their contracted insurers to verify that the most recent negotiated rates are being used.

Finding 4: AHCA did not adopt rules relating to the KidCare Program as statutorily required.

Recommendation:

In order to allow for public input and to help ensure consistent application of Program policies and procedures, AHCA should promulgate rules as required by law.

Agency Response:

Since the inception of the Title XXI KidCare program in 1998, the program has gone through numerous changes to reflect funding and enrollment capacity. During these formative years, federal regulations and Florida's State Children Health Insurance Plan's State Plan have guided the program. Amendments have been made to the State Plan as new changes have been implemented.

We acknowledge that administrative rules are required by statute. A meeting was held with KidCare representatives from DOH and DCF on November 16, 2004, to begin the process of developing administrative rules. Each provision of the F.S. 409.818(3)(g) was discussed and a decision was made to wait until after the 2005 legislative session to continue working on the development of the rules, to incorporate all legislative changes. Agency staff will meet October 17, 2005 to continue the process of developing rules. The goal is to have the draft rules developed for the other KidCare partners to review and comment by November 14, 2005, and then to initiate the rule process.

Finding 5: Although FHKC contracted with a third party administrator to perform eligibility determinations for the KidCare Program, FHKC retained certain monitoring responsibilities. Given recent Program changes, FHKC monitoring efforts were insufficient to timely detect and correct errors in eligibility determinations.

Recommendation:

FHKC should revise the policy relating to client reviews to ensure that they are completed on a more timely basis. Also, due to the level of errors noted during the test of the TPA's eligibility determinations, we recommend that FHKC evaluate the causes of the errors noted and seek improvements in the TPA's eligibility determination process.

Agency Response:

624.91, F.S. authorizes FHKC to determine eligibility for children seeking Title XXI-funded Florida KidCare. With this authority, FHKC solely determines the time frames for the redetermination process.

Eligibility will be the focus of this quarter's monitoring visit with FHKC. The Agency has received current enrollment information from FHKC, so that a sample can be identified for monitoring purposes. In addition to the Agency's monitoring, eligibility has been recently been audited by the Auditor General, Navigant Consulting and by Carroll and Company, during FHKC's annual audit. The U.S. Department of Health and Human Services' Office of Inspector General is starting an audit.

Finding 6: FHKC, without prior authorization, waived clients' insurance premiums during the 2004 active hurricane season.

Recommendation:

Without specific authority granted by either the Executive Order, AHCA as the Title

XXI lead agency, or the Board of Directors for non-Title XXI clients, FHKC should refrain from any unilateral waiver of client premiums. We also recommend that AHCA timely conduct a detailed review of the hurricane-related credits to ensure proper accounting and reporting of the credits as applied.

Agency Response:

The monitoring report dated May 5, 2005, requested FHKC advise the Agency of any changes that may impact the State Plan prior to implementation of the change. Had the Agency and the other partner agencies known that permanent credits were being given to all families, then discussions could have been held to consider the implications of taking this action.

The Agency submitted State Plan Amendment #14 to address the hurricane credit on December 2, 2004. SPA #14 was approved on February 24, 2005.

When the final hurricane reconciliation was received in July 2005, Medicaid's Bureau of Program Analysis was asked to review the $845,902 payment to determine if it appeared accurate. The attached table shows that the total estimated credit due AHCA was $798,315.34. This amount was less than the amount received from FHKC, therefore it was accepted.

FHKC has advised the Agency that they have re-evaluated the hurricane credit calculations and will be remitting an additional check to the Agency for $582,183.86, along with a new reconciliation of the credits. This reconciliation will be reviewed by the Agency's Program Analysis unit when received.

Finding 7: As of June 1, 2005, FHKC had not remitted premium payments totaling approximately $1.6 million collected on behalf of the Children's Medical Services Program and the MediKids Program to AHCA as required by contract.

Recommendation:

FHKC should remit to AHCA all remaining premium collections.

Agency Response:

Please see response to Finding #6. Since June, FHKC has timely submitted family premium payments to the Agency.

EXHIBIT C

Healthy kids and KidCare

Post Office Box 980
Tallahassee, Florida 32302
850.224.KIDS(5437)
850.224.0615(FAX)

October 21, 2005

William O. Monroe, CPA
Auditor General
G74 Claude Pepper Building
111 West Madison Street
Tallahassee, Florida 32399-1450

RE: 2004-2005 Florida KidCare Program Operational Audit

Dear Mr. Monroe:

Thank you for presenting your preliminary audit findings and tentative recommendations to the Florida Healthy Kids Corporation (FHKC) staff. Your presentation brought greater focus to areas in which we had already begun to plan improvements. We appreciate this opportunity to describe our organizational assessment plans, and to respond to your findings.

Throughout your recommendations, we recognize one significant recurring theme: the need to conduct an organizational assessment. This assessment, to be conducted by an objective third party, will emphasize organizational capacity and management of program volatility.

We look forward to beginning this assessment and are confident that implementing its findings will enhance our responsiveness to program changes. While the assessment is being planned, however, we do want to respond specifically to your findings.

Finding No. 1: AHCA should enhance procedures to ensure that funds advanced to FHKC are reflective of FHKC's current level of spending. Reductions in the level of enrollment resulted in a surplus of $20 million in State funds advanced over actual FHKC disbursements as of March 2005.

In contrast to projections preceding the fiscal year, enrollment decreased by an unexpectedly large amount due to the rapid implementation of a legislative mandate that required an income documentation process as part of account renewal. The program structure has since stabilized and the income documentation requirements have been modified; such a drastic decrease in enrollment (and an accompanying surplus of state funds) is unlikely to recur.

Finding No. 2: AHCA did not document its approval of FHKC's increase in the administrative rate from $3.33 to $6.00 per child per month. Further, FHKC could not document the reasonableness of the rate.

The $6.00 per child per month rate was calculated by FHKC staff for billing purposes and was used as an estimate for the purposes of the Social Services Estimating Conference, however, we were unable to locate the memorandum explaining the methodology used to develop the estimate due to a change in personnel. This higher rate was necessitated by significant changes to program administration which demanded additional resources. The rapidity of the implementation of these changes presented challenges in estimating an accurate administrative rate. In retrospect, FHKC is pleased that the actual expenditures of $5.82 per child per month differed from the projected rate of $6.00 per child per month by $0.18, a deviation of three percent. The marginal difference between projected and actual expenses suggests the methodology used to develop the projection was sound even in the absence of the documentation you requested. We will work with the AHCA to ensure that future work papers documenting the administrative rate will be properly maintained and available for AHCA approval.

Finding No. 3: AHCA did not periodically verify capitation rates and enrollment counts reported on monthly invoices submitted by FHKC. In one instance, the capitation rate paid by FHKC to an insurance company was not in accordance with contracted rates, resulting in a $607,783 overpayment over a six-month period.

We concur with this finding. Measures have been put into place to ensure that contracted rates are updated on the system and reviewed in a timely manner. A credit was taken in April 2005 to adjust for the overpayment.

Finding No. 4: AHCA did not adopt rules relating to the KidCare Program as statutorily required.

We look forward to participating with the KidCare partners in the administrative rule development process.

Finding No. 5: Although FHKC contracted with a third party administrator to perform eligibility determinations for the KidCare Program, FHKC retained certain monitoring responsibilities. Given recent Program changes, FHKC monitoring efforts were insufficient to timely detect and correct errors in eligibility determinations.

We acknowledge this finding and are confident that the above mentioned organizational assessment will provide the needed examination of monitoring resources. However, an unusual combination of several distinct elements coalesced during the fiscal year covered by this finding. These elements included dramatic program modifications, inadequate time to implement mandated changes, unpredicted policy shifts, the impact of a compressed open enrollment period, and the compounding effects caused by the effects of four hurricanes on our enrollees and contractors. We do not anticipate such a set of circumstances in the future; we will ensure that our monitoring resources and processes are plentiful and solid.

Finding No. 6: FHKC, without prior authorization, waived clients' insurance premiums during the 2004 active hurricane season.

During the 2004 hurricane season, the Office of Insurance Regulation issued orders that prohibited the cancellation of any insurance policies for three coverage months. Premium "credits" were placed on all KidCare accounts regardless of the funding source or premium payment status in an effort to meet this requirement. A request for federal approval to share in a portion of the premium credit expense was submitted and ultimately approved. In the future, approval will be documented prior to implementation.

Finding No. 7: As of June 1, 2005, FHKC had not remitted premium payments totaling approximately $1.6 million collected on behalf of the Children's Medical Services Program and the MediKids Program to AHCA as required by contract.

Based on our year end fiscal reconciliation, we concur with this finding. We have remitted to AHCA the remaining premium payments collected on behalf of participants in the CMS and MediKids program.

Thank you again for the opportunity to comment. We look forward to receiving your full report once your audit is complete.

If you have any questions or need additional information, please feel free to contact Kimberly Harvard at 224-5437, x6146 or Fred Knapp at extension 6113.

Sincerely,

Rose M. Naff
Executive Director

RMN/fjk