



# AUDITOR GENERAL

## WILLIAM O. MONROE, CPA



### FLORIDA KIDCARE PROGRAM

### FLORIDA HEALTHY KIDS CORPORATION

### ELIGIBILITY ISSUES

Operational Audit

**SUMMARY**

The 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 (i.e., Medicaid and State Children’s Insurance Program (known as Title XXI)). The Florida Healthy Kids Corporation (FHKC), under contract with AHCA, is the primary provider of Title XXI services. FHKC responsibilities include eligibility determination, collection of premiums, contracting with authorized insurers, and the development of benefit packages. Of the \$531 million budgeted for the KidCare Program (excluding Medicaid for Children) for the 2005-06 fiscal year, \$404 million was budgeted for FHKC.

In audit report No. 2006-072, we disclosed significant findings related to eligibility determinations. The scope of this audit focused on the current status of those findings during the period January 2006 through February 2006 and selected actions taken through June 2006. While some improvements were noted since the previous audit, our testing disclosed the following issues:

**Finding No. 1:** FHKC did not ensure that only eligible children were participating in the Title XXI Program during the period January 2006 through February 2006.

**Finding No. 2:** To help avoid adverse selection, the number of children participating in the Healthy Kids Program whose family income exceeds 200 percent of the Federal Poverty Level

must not exceed ten percent of the total enrollees in the Healthy Kids Program. While FHKC has been monitoring the participation rate for these children, it has not developed written procedures to ensure compliance with the statutory limit.

**Finding No. 3:** For some applicants, the KidCare application format did not facilitate the collection of sufficient information to allow a complete evaluation of eligibility.

**BACKGROUND**

The KidCare Program was created to provide health care benefits through the establishment of a variety of affordable health benefits coverage options.<sup>1</sup> The KidCare Program components include Florida Healthy Kids, MediKids, Children’s Medical Services (CMS), and Medicaid for Children (see Appendix A). 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). Medicaid clients were not included within the scope of this audit.

The Florida Healthy Kids Corporation (FHKC), a not-for-profit entity, was created by the Legislature to serve as a provider of services to children eligible for medical assistance under Title XXI.<sup>2</sup> FHKC operates subject to the supervision and approval of a Board of Directors. The primary recipients of services provided

<sup>1</sup> Section 409.812, Florida Statutes

<sup>2</sup> Section 624.91, Florida Statutes

through FHKC are school-age children with a family income below 200 percent of the Federal Poverty Level (FPL), who do not qualify for Medicaid.

FHKC contracts with a Third Party Administrator (TPA) to perform the scanning, data entry, and eligibility determinations for all children regardless of the KidCare Program component in which they may be eventually enrolled. The TPA screens the children for potential Medicaid eligibility and, if the Department of Children and Family Services (DCFS) determines them ineligible for Medicaid, the TPA will determine eligibility for Title XXI. If the applicant (parent or guardian) indicates the child has special health care needs, the Department of Health (DOH) will determine whether the child is eligible for CMS.

Some Title XXI requirements are Federally established while specifics regarding how the states intend to manage the Program are included in a State Plan which is approved by the Federal Government. Eligibility requirements are also included in the Florida KidCare Act.<sup>3</sup> Eligibility factors include, but are not limited to, family income, age, and insurance availability and cost.

Title XXI clients must have family income of equal to or less than 200 percent of the FPL. Florida Statutes state that proof of family income must be provided, including a copy of the most recent Federal income tax return. The law also provides that, in the absence of a Federal income tax return, an applicant is allowed to submit wages and earnings statements (pay stubs, W-2 forms) or other appropriate documents.

According to FHKC policy, income documentation must be received for all income and for each person reported on the application as having income. A family's household size and premium income (i.e., family income less any applicable income reductions) is compared with the FPL and, if eligible, children are enrolled in one of two Federally subsidized premium plans. A family with premium income of less than or equal to 150 percent of the FPL can qualify for Plan

Two<sup>4</sup> and pay a \$15 per month family premium. A family with premium income above 150 to 200 percent of the FPL can qualify for Plan Three and pay a \$20 per month family premium. Plan Four is a nonsubsidized plan available for a limited number of children in the Healthy Kids Program.<sup>5</sup> The nonsubsidized plan can include families whose premium income is over 200 percent of the FPL. They pay approximately \$110 per month per child (i.e., full-pay). Program eligibility and plan placement is based upon information recorded in and calculations performed by the TPA's Children's Health Administration System (CHAS).

Florida Statutes state that children are not eligible for Title XXI coverage if they have access to affordable insurance available through a family member's employer (i.e., employer-sponsored insurance (ESI)).<sup>6</sup> Specifically, the cost of the child's participation in the ESI plan must be more than five percent of the family's income for the child to be eligible for Federal subsidy. In addition, the child must not have been voluntarily canceled from an ESI plan within the six months preceding the application.

The primary focus of this audit was to conduct a follow-up review of FHKC's eligibility determination processes under the KidCare Program. Our eligibility testing was performed to determine whether children who received a redetermination or children who were newly enrolled during January or February 2006 were properly determined eligible for the KidCare Program.

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**FINDINGS AND RECOMMENDATIONS**

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The establishment and effective dissemination of policies and procedures, proper training, 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 KidCare eligibility determinations. While improvements were noted

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<sup>3</sup> Sections 409.810-409.820, Florida Statutes

<sup>4</sup> Plan One is no longer in use.

<sup>5</sup> Section 409.814(5), Florida Statutes

<sup>6</sup> Section 409.814(4), Florida Statutes

since the previous audit, these findings indicate that management had not established and enforced the necessary processes and controls to sufficiently minimize the risks associated with making incorrect or unsupported eligibility determinations.

**Finding No. 1: Eligibility Determinations**

Our testing included the records for 202 active KidCare clients (children) who had an eligibility redetermination or were newly enrolled in the program during January and February 2006. Our tests disclosed:

- In six instances, the child’s insurance coverage should not have been activated. In three of these instances, coverage was provided despite the lack of an application<sup>7</sup> and related income documentation. In the other three instances, an application was available, but no income documentation was provided.

For the remaining 196 clients included in our test, we found the following eligibility-related matters:

- In 44 instances, the incorrect monthly family income was recorded in CHAS. The differences ranged between \$7 and \$3,955, with an average difference of approximately \$500. In some instances, these errors resulted in the children being enrolled in the wrong plan or ineligible for the subsidies received. In an additional 3 instances, we were unable to determine whether the family income amount was calculated correctly because the documentation provided was insufficient or unclear (for example, child support payments were indicated but the frequency of the payments was not apparent from the documentation provided).

Contributing to the TPA’s failure to timely detect some of these errors was the lack of a CHAS edit which would identify atypical incomes relative to the household size recorded.

- Of the 196 clients tested, the files for 65 indicated that ESI was available. Of those 65, two children were enrolled in subsidized plans although the application indicated the children

had ESI available at less than five percent of the family’s income. In one additional instance, the family had voluntarily canceled its ESI coverage during the six months prior to the family’s submitting an application for determination of eligibility.

- In 12 instances, the incorrect household size was entered into CHAS. Since household size is a factor in determining the FPL, this could impact eligibility determinations.
- In five instances, child support paid or daycare expenses that were listed on the application were not recorded in CHAS. In an additional instance, daycare expenses that were not listed on the application were recorded in CHAS. In two additional instances the amounts related to daycare expenses were recorded in CHAS, but the amounts recorded were incorrect. Since these expenses may be used as a reduction of family income, this type of error could have an effect on the premium plan.

In summary, our tests of the records for the 202 active KidCare clients disclosed the following with respect to program eligibility:

- In six instances, the child’s insurance coverage should not have been activated. In these instances either applications or income documentation were absent.
- In nine instances, children were enrolled in a subsidized plan but should have been full-pay (i.e., Plan Four).
- Three children subsidized under the MediKids Program were ineligible.<sup>8</sup>
- In six instances, children were enrolled in the wrong level of subsidized plan (e.g., enrolled in Plan Two, but should have been in Plan Three).

**Recommendation:** While some improvements were noted since the previous audit, additional efforts to reduce errors in eligibility determinations are needed. We recommend FHKC improve oversight of the TPA to ensure that policies and procedures related to income calculations and documentation requirements are sufficiently detailed and that TPA staff are

<sup>7</sup> In this report the term application could represent a renewal form or an application for new enrollment.

<sup>8</sup> Under statutes adopted subsequent to the audit period, these children may have been eligible for full-pay enrollment in the MediKids Program.

**adequately trained and supervised. FHKC should also consider requesting edits within CHAS to identify atypical income amounts.**

**Finding No. 2: Plan Four Limitations**

As noted above, Plan Four is a nonsubsidized plan available for a limited number of children in the Healthy Kids Program. To help avoid adverse selection, the number of children participating in the Healthy Kids Program whose family income exceeds 200 percent of the FPL must not exceed ten percent of the total enrollees in the Healthy Kids Program.<sup>9</sup> The number of Plan Four participants whose income exceeds 200 percent of the FPL has been increasing and the participation rate reported by FHKC for June 2006 was 11.38 percent. The average participation rate reported by FHKC for the fiscal year ended June 30, 2006, was 10.46 percent. While FHKC has been monitoring the Plan Four participation rate, it has not developed written procedures to ensure compliance with the statutory limit.

**Recommendation: FHKC should implement written procedures to ensure compliance with the statutory limit. Procedures should address issues such as how often the rate is calculated and the means by which access to the Program will be regulated to ensure the ten percent limit is not exceeded.**

**Finding No. 3: KidCare Program Application**

The application for the KidCare Program includes several questions used to determine eligibility, including access to ESI, citizenship, and family income. Requested information includes a count of the number of adults and children in the household, but the application instructions do not require the listing of all adults in the income section of the application. A listing of all adults in the income section would clarify household composition, and for each adult member, whether income was received.

Of the 202 clients sampled, 18 applications identified more adult household members than the number of

adults reporting income. We found no evidence that FHKC had verified that the additional household members had no income. According to FHKC policy, if the income is not disclosed by the applicant, it is assumed that the income is zero. Subsequent to the issuance of our prior audit report, FHKC began discussions to modify the application to address this issue.

**Recommendation: To help ensure the completeness of income information submitted, we recommend that FHKC continue to work with the other KidCare partners to revise the KidCare application to instruct the applicant to include all adult members in the income section of the application and indicate whether each such member receives income, regardless of family relationship.**

**OBJECTIVES, SCOPE, AND METHODOLOGY**

Our overall objectives related to our audit of the KidCare Program were to obtain an understanding of internal controls, make judgments as to the effectiveness of those internal controls, and evaluate management’s performance in achieving compliance with controlling laws, administrative rules, and other guidelines; the validity and reliability of records and reports; and to determine whether management has corrected, or is in the process of correcting, deficiencies disclosed in audit report No. 2006-072.

The scope of the audit focused on determining whether children enrolled in the KidCare Program were appropriately offered KidCare coverage.

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 January 2006 through February 2006, and selected actions through June 2006.

Chapter 2004-1, Laws of Florida, implemented numerous changes to the KidCare Program and directed the Auditor General to perform periodic

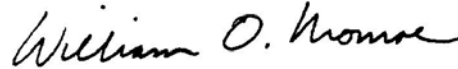
<sup>9</sup> Section 409.814(5)(c), Florida Statutes

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.

In December 2005, we released audit report No. 2006-072 related to the KidCare Program – Eligibility Issues.

**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

**MANAGEMENT RESPONSE**

In a letter dated September 22, 2006, the Executive Director of Florida Healthy Kids Corporation provided responses to our findings and recommendations. The letter is included in its entirety at the end of this report as Appendix B.

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APPENDIX A

KidCare Program Components				
Program	Agency	Program Administered	Number Enrolled June 2006	Responsibilities
Medicaid Title XIX	Agency for Health Care Administration	<u>Medicaid for Children</u> <sup>1</sup> 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	1,234,901	<ul style="list-style-type: none"> <li>Lead State entity for the State Children’s Insurance Program (Title XXI) and Medicaid (Title XIX).</li> <li>Contracts with FHKC, DOH, and DCFS to provide related KidCare services.</li> <li>Contracts with health care service providers for MediKids and Medicaid clients.</li> </ul>
		<u>MediKids</u> Ages 1 through 4 133% to 200% FPL <u>Medicaid for Children</u> Age 0 (infants under one year) 185% to 200% FPL	16,684 1,200	
State Children’s Insurance Program Title XXI <sup>2</sup>	Florida Healthy Kids Corporation (FHKC)	<u>Florida Healthy Kids</u> 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 (26,840 enrollees).	166,596	<ul style="list-style-type: none"> <li>Not-for-profit entity responsible for KidCare application scanning, data entry, and eligibility determinations other than Medicaid for Children.<sup>3</sup></li> <li>Contracts with health care service providers for Florida Healthy Kids clients.</li> <li>Conducts special health care needs (a child whose serious condition requires care beyond that of a healthy child) eligibility determinations.<sup>4</sup></li> <li>Contracts with health care service providers for CMS physical health clients.</li> <li>Responsible for determining Medicaid eligibility.</li> <li>Administers the mental health component of the CMS program.</li> <li>Contracts with health care service providers for CMS mental health clients.</li> </ul>
	Department of Health (DOH)	<u>Children’s Medical Services (Physical Health)</u> 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	9,159	
	Department of Children and Family Services (DCFS)	<u>Children’s Medical Services (Mental Health)</u> Ages 5 through 18 100% to 200% FPL	Included in DOH CMS count	

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

<sup>1</sup> Enrollees in Medicaid for Children can also be enrolled in Children’s Medical Services (CMS)

<sup>2</sup> Title XXI requires a premium payment except for infants

<sup>3</sup> FHKC contracts with a third party administrator to provide services listed

<sup>4</sup> Section 409.811(6), Florida Statutes

APPENDIX B

MANAGEMENT RESPONSE



Florida Healthy Kids Corporation

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September 22, 2006

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

RE: Response to Preliminary and Tentative Audit Findings

Dear Mr. Monroe:

Thank you for presenting your preliminary and tentative audit findings and recommendations to the Florida Healthy Kids Corporation (FHKC) staff. Each preliminary finding pertained to an area in which FHKC had already committed to intensify its focus. We appreciate this opportunity to respond to your preliminary findings.

**Finding No. 1: FHKC did not ensure that only eligible children were participating in the Title XXI Program during the period January 2006 through February 2006.**

FHKC concurs with this finding. In response to your previous audit, we took measures to address the areas covered by this finding. We also levied penalties from our Third Party Administrator for failure to meet performance standards related to eligibility determination accuracy. As a result, our eligibility processing error rate has improved by nearly 67%.

We acknowledge that further action is necessary to accelerate improvements in eligibility determination accuracy. FHKC is currently conducting a procurement process for a Third Party Administrator. The Invitation to Negotiate clearly delineates stringent performance standards to ensure that eligibility is conferred only on the appropriate children. Our proposal evaluation process involves an assessment of each potential vendor's ability to handle this component.

Due to changes in the eligibility process, we shifted our audit emphasis from specific enrollees to concentrate additional resources on the Third Party Administrator. We placed a Senior Manager for Quality Assurance, whose main responsibility is coordinating all audit activity, on the management team. This staff member also conducts detailed trend analyses on Quality Assurance data in order to remedy potential issues at the earliest possible moment. FHKC staff



also undertook a project to conduct a comprehensive business rule review; this review should be complete in October 2006.

Concurrent with this renewed focus on the TPA's performance, FHKC and the TPA aligned their audit methodologies in order to improve the reliability of both parties' audit results. As part of their response, the TPA designed a certification process for the staff who conduct eligibility determination activities. This process ensures that the certified staff members uniformly adhere to the TPA's procedures and that they apply demanding accuracy standards to their work.

The TPA is also developing a process to "flag" atypical income so that accounts with disproportionately low amounts of income can be subjected to more thorough scrutiny. Lastly, the TPA and FHKC are in the final stages of implementing a full electronic file transfer from DCF to FHKC in which the income most recently reported to DCF (and matched electronically) will be imported by FHKC.

For the long term, FHKC is working with the Agency for Health Care Administration (AHCA) to incorporate data matching into the eligibility determination and auditing processes. The data matching would expand our access to reliable sources of verification while simultaneously reducing processing time.

**Finding No. 2: To help avoid adverse selection, the number of children participating in the Healthy Kids Program whose family income exceeds 200 percent of the Federal Poverty Level must not exceed ten percent of the total enrollees in the Healthy Kids Program. While FHKC has been monitoring the participation rate for these children, it has not developed written procedures to ensure compliance with the statutory limit.**

FHKC concurs with this finding. We understand the urgency of instituting written procedures to ensure that the number of children participating in the Healthy Kids program whose family income exceeds 200 percent of the Federal Poverty Level does not exceed ten percent of the total enrollees in the program. Since this statutory limitation affects multiple agencies, we commit to collaborating with the Agency for Health Care Administration to develop written procedures.

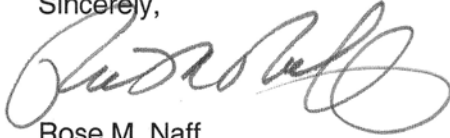
**Finding No. 3: For some applicants, the KidCare application format did not facilitate the collection of sufficient information to allow a complete evaluation of eligibility.**

FHKC concurs with this finding. In response to your previous recommendations, we convened an Application Workgroup on which each partner and the TPA are represented. This workgroup, which has been meeting since January 2006, will soon finalize changes that will rectify this issue.

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 Fred Knapp at (850) 701-6113.

Sincerely,



Rose M. Naff  
Executive Director

RMN/fjk

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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](mailto:janeflowers@aud.state.fl.us) or by telephone at (850) 487-9136.

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