



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office Of Inspector General  
Office Of Audit Services

Region II  
Jacob K. Javits Federal Building  
26 Federal Plaza  
New York, NY 10278

December 18, 2007

Report Number: A-02-04-01019

Honorable Rosa Pérez Perdomo, MD, MPH, PhD  
Secretary  
Puerto Rico Health Department  
P.O. Box 70184  
San Juan, Puerto Rico 00936-0184

Dear Dr. Pérez:

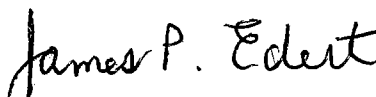
Enclosed is the U.S. Department of Health and Human Services (HHS), Office of Inspector General (OIG), final report entitled "Review of State Children's Health Insurance Program Payments in Puerto Rico." We will forward a copy of this report to the HHS action official noted on the following page for review and any action deemed necessary.

The HHS action official will make final determination as to actions taken on all matters reported. We request that you respond to this official within 30 days from the date of this letter. Your response should present any comments or additional information that you believe may have a bearing on the final determination.

Pursuant to the principles of the Freedom of Information Act, 5 U.S.C. § 552, as amended by Public Law 104-231, OIG reports are generally made available to the public to the extent the information is not subject to exemptions in the Act (45 CFR part 5). Accordingly, within 10 business days after the final report is issued, it will be posted on the Internet at <http://oig.hhs.gov>.

If you have any questions or comments about this report, please do not hesitate to call me or contact James C. Cox, Audit Manager, at (518) 437-9390, extension 222 or through e-mail at [James.Cox@oig.hhs.gov](mailto:James.Cox@oig.hhs.gov). Please refer to report number A-02-04-01019 in all correspondence.

Sincerely,

  
James P. Edert  
Regional Inspector General  
for Audit services

Enclosure

**Direct Reply to HHS Action Official:**

Jackie Garner, Consortium Administrator  
Consortium for Medicaid and Children's Health Operations  
Centers for Medicare & Medicaid Services  
233 North Michigan Avenue, Suite 600  
Chicago, Illinois 60601

Department of Health and Human Services

**OFFICE OF  
INSPECTOR GENERAL**

**REVIEW OF  
STATE CHILDREN'S HEALTH  
INSURANCE PROGRAM  
PAYMENTS IN PUERTO RICO**



Daniel R. Levinson  
Inspector General

December 2007  
A-02-04-01019

# ***Office of Inspector General***

<http://oig.hhs.gov>

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Department of Health and Human Services

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# *Notices*

**THIS REPORT IS AVAILABLE TO THE PUBLIC**  
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## **OAS FINDINGS AND OPINIONS**

The designation of financial or management practices as questionable or a recommendation for the disallowance of costs incurred or claimed, as well as other conclusions and recommendations in this report, represent the findings and opinions of the HHS/OIG/OAS. Authorized officials of the HHS divisions will make final determination on these matters.

## **EXECUTIVE SUMMARY**

### **BACKGROUND**

Pursuant to Title XIX of the Social Security Act (the Act), the Medicaid program provides medical assistance to low-income individuals and individuals with disabilities. The Federal and State Governments jointly fund and administer the Medicaid program. At the Federal level, the Centers for Medicare & Medicaid Services (CMS) administers the program. Each State administers its Medicaid program in accordance with a CMS-approved State plan. Although the State has considerable flexibility in designing and operating its Medicaid program, it must comply with applicable Federal requirements.

The Balanced Budget Act of 1997 expanded Title XIX of the Act and created Title XXI, the State Children's Health Insurance Program (SCHIP). SCHIP allows States to provide health care coverage to uninsured children in families whose incomes are too high to qualify for Medicaid but too low to afford private coverage. Like Medicaid, SCHIP is a Federal and State partnership, but the Federal match for SCHIP expenses is greater than the match for Medicaid. Title XXI, section 2102, requires States to screen SCHIP applicants for Medicaid eligibility to ensure that they are appropriately enrolled in Medicaid or SCHIP, but not both. States submit claims for Federal reimbursement for the Medicaid expansion component on the Quarterly Medical Assistance Expenditures by State Children's Health Insurance Program (CMS-64.21U) report.

In Puerto Rico, effective January 1, 1998, SCHIP was approved by CMS as a Medicaid expansion program for children age 18 and under whose family income is less than 200 percent of the Commonwealth's poverty level. The Puerto Rico Health Department (Health Department) administers SCHIP by contracting with health insurance organizations to provide services to qualified beneficiaries at negotiated capitation rates (premiums). For fiscal year (FY) 2002, the Health Department was awarded \$30,296,700 and a supplemental FY 1999 redistribution of \$27,109,556, for a total of \$57,406,256.

### **OBJECTIVE**

Our objectives were to determine whether the Health Department implemented SCHIP in compliance with Federal requirements to (1) prevent duplicate coverage, (2) ensure client eligibility, (3) properly account for and report expenditures, and (4) retain supporting records for SCHIP expenditures.

### **SUMMARY OF FINDINGS**

The Health Department implemented SCHIP in compliance with Federal requirements designed to prevent duplicate coverage and to ensure that its clients met eligibility requirements. However, the Health Department did not fully comply with requirements pertaining to the reporting of program expenditures and retention of records.

The Health Department overstated SCHIP expenditures on its FY 2002 CMS 64.21U report by \$28,301,865 (Federal share \$18,396,212). Despite the reporting error, the overstatement did not

have a financial impact on Federal funds. In addition, contrary to Federal regulations, the Health Department retained SCHIP expenditure data for as little as six months. Nothing came to our attention to indicate that improper SCHIP payments were made because of missing documentation.

## **RECOMMENDATIONS**

We recommend that the Health Department:

- reduce expenditures reported on the FY 2002 CMS 64.21U by \$28,301,865 (Federal share \$18,396,212),
- establish procedures to reconcile SCHIP expenditures on its CMS 64.21U reports to the Commonwealth's Medicaid Development Information System to prevent any future overstatements, and
- implement procedures for retaining records that comply with Federal regulations.

## **STATE AGENCY'S COMMENTS**

In written comments on our draft report, the Health Department (the State agency) concurred with our findings and recommendations. The State agency indicated that it has amended its FY 2002 CMS 64.21U by \$28,301,865, implemented a procedure to reconcile SCHIP program expenditures on CMS 64.21U reports, and implemented a procedure to retain SCHIP member records for at least 3 years. The State agency's comments are included in their entirety as the Appendix.



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## INTRODUCTION

### BACKGROUND

Pursuant to Title XIX of the Social Security Act (the Act), the Medicaid program provides medical assistance to low-income individuals and individuals with disabilities. The Federal and State Governments jointly fund and administer the Medicaid program. At the Federal level, the Centers for Medicare & Medicaid Services (CMS) administers the program. Each State administers its Medicaid program in accordance with a CMS-approved State plan. Although the State has considerable flexibility in designing and operating its Medicaid program, it must comply with applicable Federal requirements.

The Balanced Budget Act of 1997 expanded Title XIX of the Act and created Title XXI, the State Children's Health Insurance Program (SCHIP). SCHIP allows States to provide health care coverage to uninsured children in families whose incomes are too high to qualify for Medicaid but too low to afford private coverage. Like Medicaid, SCHIP is a Federal and State partnership, but the Federal match for SCHIP expenses is greater than the match for Medicaid. Title XXI, section 2102, requires States to screen SCHIP applicants for Medicaid eligibility to ensure that they are appropriately enrolled in Medicaid or SCHIP, but not both. In Puerto Rico, effective January 1, 1998, SCHIP was approved by CMS as a Medicaid expansion program for children age 18 and under whose family income is less than 200 percent of the commonwealth's poverty level.<sup>1</sup>

States submit claims for Federal reimbursement for the Medicaid expansion component on the Quarterly Medical Assistance Expenditures by State Children's Health Insurance Program (CMS-64.21U) report. Federal regulations (42 CFR § 457.720) require State to include assurances on their State plans that they will collect, maintain, and furnish reports necessary to monitor and evaluate program administration and compliance. In addition, Federal regulations (45 CFR § 74.53(b)) require that all records relevant to a grant award be retained for a period of three years from the date of submission of the final expenditure report.

The Puerto Rico Health Department (Health Department) administers SCHIP by contracting with health insurance organizations to provide services to qualified beneficiaries at negotiated capitation rates (premiums). For fiscal year (FY) 2002, the Health Department was awarded \$30,296,700 and a supplemental FY 1999 redistribution of \$27,109,556, for a total of \$57,406,256.

### OBJECTIVE, SCOPE, AND METHODOLOGY

#### Objective

Our objectives were to determine whether the Health Department implemented SCHIP in compliance with Federal requirements to (1) prevent duplicate coverage, (2) ensure client

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<sup>1</sup>For example, to qualify for SCHIP, the income for a family of four must exceed \$8,220 (the Commonwealth's poverty level) but be less than \$16,440 (twice the poverty level). If the family's income is less than \$8,220, the children qualify for Medicaid – not SCHIP.

eligibility, (3) properly account for and report expenditures, and (4) retain supporting records for SCHIP expenditures.

## **Scope**

Our review covered the period October 1, 2001, through September 30, 2002 (FY 2002). For that period, the Health Department was awarded a total of \$57,406,256 in SCHIP funds – \$30,296,700 for its FY 2002 SCHIP award and \$27,109,556 from the redistribution of FY 1999 SCHIP funds. We were unable to review SCHIP payment data for the months of January, February, and July 2002 because the Health Department did not maintain records in accordance with Federal regulations (see page 4).

We did not assess the Health Department's overall internal controls for administering SCHIP funds. Rather, we limited our review to acquiring an understanding of the SCHIP enrollment and payment process.

We performed our fieldwork at the Health Department Medicaid office in San Juan, Puerto Rico.

## **Methodology**

To accomplish our objective, we:

- reviewed Federal regulations and program guidance, and the Puerto Rico SCHIP State Plan;
- interviewed CMS and Puerto Rico Health Department officials to identify Health Department procedures for paying health insurance premiums, reporting SCHIP expenditures, and retaining records;
- ran computer programming applications which identified SCHIP payments totaling \$6,260,471 for 98,786 beneficiaries for October 2001, and \$6,157,547 for 97,182 beneficiaries for March 2002;
- ran computer programming applications which identified Medicaid payments totaling \$13,408,333 for 1,049,922 beneficiaries for October 2001, and \$10,108,460 for 1,035,546 beneficiaries for March 2002;
- performed computer matches of the Commonwealth's SCHIP client database against the Health Department's Medicaid client files in order to identify duplicate coverage;
- selected a judgmental sample of 100 beneficiaries for October 2001, and March 2002 (the first 50 clients for each month, by Social Security number);
- obtained records for the 100 sample clients from the Health Department's Medicaid regional offices and evaluated eligibility determinations; and

- traced reported SCHIP expenditures through the commonwealth's accounting system and reviewed supporting documentation.

We conducted our audit in accordance with generally accepted government auditing standards.

## **FINDINGS AND RECOMMENDATIONS**

The Health Department implemented SCHIP in compliance with Federal requirements designed to prevent duplicate coverage and to ensure that its clients met eligibility requirements. However, the Health Department did not fully comply with requirements pertaining to the reporting of program expenditures and records retention.

### **DUPLICATE COVERAGE**

The Health Department complied with Federal requirements for screening SCHIP applicants to ensure that applicants were not also eligible for Medicaid. Title XXI, section 2102, requires States to screen SCHIP applicants for Medicaid eligibility to ensure that they are appropriately enrolled in Medicaid or SCHIP, but not both.

We judgmentally selected SCHIP and Medicaid beneficiary data for two months (October 2001 and March 2002) and compared the data. There were no beneficiaries enrolled in both SCHIP and Medicaid.

### **ELIGIBILITY**

The Health Department complied with Federal and Puerto Rico SCHIP State Plan requirements related to SCHIP eligibility.

Federal regulations (§ 435.403 and § 435.406) require that SCHIP beneficiaries be residents of the State they are enrolled in, and are United States citizens. In addition, the Puerto Rico SCHIP State Plan includes other requirements, as follows: (1) children must be age 18 years of age or younger, (2) children must be uninsured, and (3) family income must not exceed 200 percent of the Puerto Rico poverty level for the family's size.

Of the 100 beneficiary records we judgmentally sampled (50 each from October 2001, and March 2002), all 100 beneficiaries were eligible for SCHIP.

### **REPORTING OF EXPENDITURES**

Contrary to Federal regulations, the Health Department overstated SCHIP expenditures reported on its FY 2002 CMS 64.21U report by \$28,301,865 (Federal share \$18,396,212).

Federal regulations (42 CFR § 457.720) require State to include assurances on their State plans that they will collect, maintain, and furnish reports necessary to monitor and evaluate program administration and compliance. However, on its FY 2002 CMS 64.21U, the Health Department reported \$98,765,633 as gross premiums paid when actual program expenditures totaled

\$70,463,768. The overstatement was not identified because the Health Department did not reconcile the CMS 64.21U to the Commonwealth's Medicaid Development Information System database.

Despite the reporting error, the overstatement on the CMS 64.21U did not have a financial impact on Federal funds. However, future inaccurate reporting of program expenditures could result in the Health Department receiving a redistribution of program funds for which it would not be entitled to.<sup>2</sup>

## **RETENTION OF SCHIP RECORDS**

Contrary to Federal requirements, the Health Department did not routinely maintain supporting documentation for SCHIP expenditures.

Federal regulations (45 CFR § 74.53(b)) require that all records relevant to a grant award be retained for a period of three years from the date of submission of the final expenditure report. However, the Health Department retained SCHIP payment data for as little as six months. After six months, computer tapes containing SCHIP data were randomly recycled with other systems data. As a result, three computer tapes containing data for our audit period (January, February, and July 2002) were recycled. Consequently, SCHIP payment data for these months were not available for our review. Nothing came to our attention that indicated that improper payments were made because of the missing documentation.

## **RECOMMENDATIONS**

We recommend that the Health Department:

- reduce expenditures reported on the FY 2002 CMS 64.21U by \$28,301,865 (Federal share \$18,396,212),
- establish procedures to reconcile SCHIP expenditures on its CMS 64.21U reports to the Commonwealth's Medicaid Development Information System to prevent any future overstatements, and
- implement procedures for retaining records that comply with Federal regulations.

## **STATE AGENCY'S COMMENTS**

In written comments on our draft report, the Health Department (the State agency) concurred with our findings and recommendations. The State agency indicated that it has amended its FY 2002 CMS 64.21U by \$28,301,865, implemented a procedure to reconcile SCHIP program expenditures on CMS 64.21U reports, and implemented a procedure to retain SCHIP member records for at least 3 years. The State agency's comments are included in their entirety as the Appendix.

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<sup>2</sup>CMS can redistribute funds from States with unexpended SCHIP funds to States whose expenses exceed program revenue.

# **APPENDIX**



Commonwealth of Puerto Rico  
Puerto Rico Department of Health

November 27, 2007

Mr. James P. Edert  
Regional Inspector General  
For Audit Services  
Jacob K. Javits Federal Building  
26 Federal Plaza, New York, NY 10278

Dear mister Edert:

The Commonwealth of Puerto Rico Department of Health acknowledges receipt of the draft Report Number A-02-04-01019 "Review of State Children's Health Insurance Program Payments in Puerto Rico" from the Office of Inspector General in the Department of Health and Human Services.

We agreed on the report facts and findings; however we would like to comment on two findings: overstatement of expenditures and data records keeping. The report recommendation to reduce overstated expenditures reported on the FY 2002 CMS 64.21U is already taken care off and report was amended by reducing \$28,301,865 (federal share of \$18,396,212).

The Commonwealth of Puerto Rico Office for the Medically Indigent already developed and implemented a procedure to reconcile SCHIP program expenditures on the CMS 64.21U reports. Also, they review the Medicaid Information Reporting System application to guarantee the parameters and indexes, such as premiums and eligibility information are kept updated.

The Office for the Medically Indigent also developed and implemented a procedure to guarantee full compliance with federal regulation on keeping member records for at least 3 years. The SCHIP member records retention policy was also distributed among the employees island wide.

We want to thank the Office of the Inspector General regional team that participated in this investigation. The auditors discussed findings and provided guidance to our staff.

Sincerely,

Rosa Pérez Perdomo, MD, MPH, PhD  
Secretary of Health

FC James C. Cox, Audit Manager  
Margie Colón, Senior Auditor  
Wendy Matos-Negrón, PhD, Executive Director