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## *Legislative Performance Audit* *Committee*

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FOR IMMEDIATE RELEASE  
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January 26, 2016

### **Department of Health and Human Services Program Improved, No Performance Audit Planned**

A program highly criticized by the Auditor of Public Accounts in 2013 has made significant improvements, according to a preaudit report released by the Legislative Performance Audit Committee today.

The Department of Health and Human Services' Health Insurance Premium Payment (HIPP) program has new personnel, an improved process for determining individual's eligibility to participate in the program, and better documentation of the eligibility determinations, the report found. The HIPP program determines whether it would be more cost effective for Medicaid to pay for a participant's health insurance premiums than to pay directly for his or her anticipated medical expenses.

The Committee conducts a preaudit to gather information on a topic it is concerned about but that may not need a full performance audit. Because of the reported HIPP program improvements, as well as continued oversight by the Auditor of Public Accounts, the Committee will not conduct a full performance audit of the program.

Senator Dan Watermeier, Chairman of the Committee, stated "The Committee appreciates the work of the Department of Health and Human to resolve the problems identified by the State Auditor. It is essential that eligibility determinations for the HIPP program be made appropriately to ensure that Medicaid funds are used in the most efficient and effective way."

The report is available on the Legislature's Web site at:

# *Legislative Performance Audit Committee*

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## **Memorandum**

To: Performance Audit Committee  
From: Clarence Mabin  
Date: January 22, 2016  
Re: Health Insurance Premium Payment Program

The Nebraska Auditor of Public Accounts (APA) in May 2013 published a report on the Health Insurance Premium Program (HIPP Program or Program) that identified significant problems with Program administration. In August 2015, the Performance Audit Committee approved a preaudit of the HIPP Program to determine if the deficiencies identified in the report have been addressed.

The HIPP Program is administered by the Medicaid and Long-Term Care Division (Division) of the Nebraska Department of Health and Human Services (DHHS or department). For this preaudit, Legislative Audit Office staff reviewed relevant HIPP Program and APA documents and interviewed DHHS administrators and APA staff familiar with the Program.

### **Summary**

The Audit Office believes that the Division on the whole effectively addressed deficiencies in the Program, particularly in internal controls and oversight. APA staff told performance auditors the Division has “made vast improvements” in the Program, staffed by all new personnel, since the May 2013 report. However, the APA continues to monitor the Program – a 2014 review found errors in a majority of files tested – and the APA and Division disagree on certain Program practices.

Because of Program improvements and the continuing oversight by the APA, the Audit Office does not recommend that Committee undertake a full performance audit of the HIPP Program. However, the Audit Office will monitor the department’s progress in amending a regulation related to premium reimbursement procedures (discussed more under the first bullet on p. 2) so that it conforms to Program practice. A department administrator told performance auditors the Division agreed the regulation needed to be amended and that DHHS is “moving forward with all expediency” to do so.

### **Discussion**

DHHS established the HIPP Program in 1994 to reduce Medicaid costs. The Program reimburses Medicaid-eligible individuals, or their parents, custodians (i.e. actual policyholders) for the cost of their share of the private insurance and submits claims for actual medical services to the private insurer, rather than to Medicaid, for payment.

HIPP Program applicants' participation in the Program must be cost-effective. Program staff must determine cost-effectiveness by comparing the total cost to Medicaid for an applicant with private insurance against the total cost to Medicaid if Medicaid were the applicant's only carrier. An applicant's participation is cost-effective if the cost to Medicaid of the private premium would be less than the cost Medicaid, as the primary carrier, would pay for the applicant's projected medical claims.

As part of its 2013 audit, the APA tested 70 of the 661 Program payees during the review period (July 1, 2010, to February 5, 2013). According to the report, HIPP Program staff failed to adequately document the cost-effectiveness calculation for any of the 70 test cases. The APA indicated in the report it therefore questioned the cost-effectiveness of all \$6.5 million in payments made during the review period. In addition, the audit found a majority of the premium payments were made without adequate documentation in support of the premium amounts. The report related the inadequate documentation to the poor internal controls within the Program. The report noted that one person was in charge of every aspect of the HIPP Program, including eligibility determination and payment processing.

In response to the report, the department hired all new Program personnel, who have, among other improvements, established: semi-annual reviews of clients' cost-effectiveness, a tracking system to identify clients who have not submitted requested documentation, on-going file reviews, and a process of HIPP Program Manager approval of all payments initiated by the staff assistant. Additionally, Program staff reviewed participant files and, as of December 2015, have terminated 447 payees from the Program – 333 for lack of cost-effectiveness and 114 for Medicaid ineligibility.

The APA and Program administrators continue to disagree on certain practices and on the dollar amount of questioned costs identified by the APA in a 2014 review:

- The Program reimburses premiums via direct deposit to payees' bank accounts. The APA indicated this practice conflicts with the existing DHHS regulation that requires the Program to pay participants directly only as a last resort. Moreover, the APA indicated many of the issues identified in the 2013 report may have been prevented or minimized had DHHS complied with the regulation. DHHS administrators say direct reimbursement to the participants is less risky than to the carrier or employer, who might inadvertently reimburse the wrong individual. Department administrators told performance auditors the regulation will be amended to conform to Program reimbursement practice as soon as possible.
- For tax purposes, the APA recommends DHHS take steps to facilitate payees' reporting of premium reimbursements as miscellaneous income on IRS form 1099. In most cases tested by the APA, health insurance premiums were deducted from wages as a pretax deduction. The APA holds the reimbursements should be counted as taxable income. Program administrators say the reimbursements qualify as a "welfare exclusion" to gross income and that they are unaware of any state that issues form 1099 in connection with a HIPP program.

- A November 2014 APA management letter on the HIPP Program indicated auditors found errors in 16 of 20 tested Program files, totaling about \$21,000 in questioned costs. The department acknowledged errors were made, but indicated that the questioned costs totaled about \$4,000. The APA submitted the matter to the federal grantor for resolution. The Program Manager told performance auditors the federal grantor – the Centers for Medicare and Medicaid Services – has yet to make a determination about the disputed amount.