DEPARTMENT OF HEALTH & HUMAN SERVICES   Office of Inspector General

Washington, D.C. 20201

June 27, 2011

TO: Donald M. Berwick, M.D.
Administrator
Centers for Medicare & Medicaid Services

FROM: /Lori S. Pilcher/
Acting Deputy Inspector General for Audit Services

SUBJECT: Review of Florida's Children's Health Insurance Program Experience Adjustment and Refund Submission Reports (A-04-10-06123)

Attached, for your information, is an advance copy of our final report on Florida's Children's Health Insurance Program experience adjustment reports and subsequent refunds during the period October 2003 through September 2007. We will issue this report to the Florida Agency for Health Care Administration within 5 business days.

If you have any questions or comments about this report, please do not hesitate to call me, or your staff may contact Brian P. Ritchie, Assistant Inspector General for the Centers for Medicare & Medicaid Audits, at (410) 786-7104 or through email at Brian.Ritchie@oig.hhs.gov or John T. Drake, Sr., Acting Regional Inspector General for Audit Services, Region IV, at (404) 562-7755 or through email at John.Drake@oig.hhs.gov. Please refer to report number A-04-10-06123.

Attachment

DEPARTMENT OF HEALTH & HUMAN SERVICES OFFICE OF INSPECTOR GENERAL

Office of Audit Services, Region IV
61 Forsyth Street, SW, Suite 3T41
Atlanta, GA 30303

June 29, 2011

Report Number: A-04-10-06123

Ms. Elizabeth Dudek
Secretary
Agency for Health Care Administration
2727 Mahan Drive, MS #1
Tallahassee, FL 32308

Dear Ms. Dudek:

Enclosed is the U.S. Department of Health & Human Services (HHS), Office of Inspector General (OIG), final report entitled *Review of Florida's Children's Health Insurance Program Experience Adjustment and Refund Submission Reports*. 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.

Section 8L of the Inspector General Act, 5 U.S.C. App., requires that OIG post its publicly available reports on the OIG Web site. Accordingly, this report will be posted at http://oig.hhs.gov.

If you have any questions or comments about this report, please do not hesitate to contact Andrew A. Funtal, Audit Manager, at (404) 562-7762 or through email at Andrew.Funtal@oig.hhs.gov. Please refer to report number A-04-10-06123 in all correspondence.

Sincerely,

/John T. Drake, Sr./
Acting Regional Inspector General
for Audit Services

Enclosure

Direct Reply to HHS Action Official:

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

Department of Health & Human Services

OFFICE OF INSPECTOR GENERAL

REVIEW OF FLORIDA'S CHILDREN'S HEALTH INSURANCE PROGRAM EXPERIENCE ADJUSTMENT AND REFUND SUBMISSION REPORTS

Daniel R. Levinson
Inspector General

June 2011
A-04-10-06123

Office of Inspector General

http://oig.hhs.gov

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Section 8L of the Inspector General Act, 5 U.S.C. App., requires that OIG post its publicly available reports on the OIG Web site.

OFFICE OF AUDIT SERVICES FINDINGS AND OPINIONS

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

EXECUTIVE SUMMARY

BACKGROUND

Pursuant to Title XXI of the Social Security Act, the State Children's Health Insurance Program (SCHIP) provides free or affordable health care coverage to uninsured children in families whose incomes are too high to qualify for Medicaid but too low to afford private health care coverage. The Federal and State Governments fund and administer SCHIP. The Centers for Medicare & Medicaid Services (CMS) administers the program at the Federal level. To participate in the program, a State must receive CMS's approval of its State plan. The State plan is a comprehensive document that defines how each State will operate its program, including program administration, eligibility criteria, service coverage, and provider reimbursement.

The Florida Agency for Health Care Administration (State agency) operates SCHIP in Florida. The State agency contracts with Florida Healthy Kids Corporation (FHKC) to provide health insurance to families not eligible for Medicaid. During our audit period (October 2003 through September 2007), FHKC entered into 27 multiyear medical service agreements (service agreements) with 11 insurers to provide comprehensive health care services) (services) to eligible SCHIP participants in exchange for per member, per month capitated payments (premiums). Florida statutes require insurers to spend a minimum of 85 percent of total premiums on medical services. This requirement is referred to as the minimum medical loss ratio (MLR).

Thirteen of the twenty-seven FHKC multiyear service agreements contained an MLR refund and reporting provision called the experience adjustment provision. The experience adjustment provision requires insurers to file an annual report (experience adjustment report) in which they calculate whether they have met the 85-percent MLR and determine the appropriate refund, if any. These 13 service agreements resulted in the submission of 22 experience adjustment reports during our audit period.

An insurer calculates its minimum MLR by multiplying the total premiums that it receives from FHKC by 85 percent and comparing that amount with its actual total expenses for medical services. If an insurer's total medical expenses are less than 85 percent of its total premiums received, it must refund 50 percent of the shortfall to FHKC. (See Appendix A for an example of a refund calculation.)

For the 14 remaining service agreements with no experience adjustment provision, the insurers hired an independent actuary to review the proposed premiums and certify that they met the 85-percent minimum MLR. FHKC considers the actuarial certification to be evidence of compliance with the 85-percent minimum MLR provision.

OBJECTIVE

Our objective was to determine whether the State agency fully recouped the Federal share of the SCHIP experience adjustment refunds due.

SUMMARY OF FINDINGS

Overall, the State agency recouped approximately $10.8 million in SCHIP refunds due from 22 experience adjustment reports that insurers submitted during our audit period. Nine experience adjustment reports contained no errors relating to premium payments received from FHKC. However, 13 experience adjustment reports incorrectly reported premium payments from FHKC. Of these 13 incorrect reports, 8 resulted in underpaid refunds, 1 resulted in an overpaid refund, and 4 contained errors having no effect on the refund. As a result, FHKC did not receive appropriate refunds, and the Federal Government was not credited with refunds totaling $3,107,623 ($2,030,015 Federal share). These underpaid refunds occurred primarily because the State agency and FHKC did not have policies and procedures requiring FHKC personnel to review experience adjustment reports and reconcile them to supporting records.

RECOMMENDATIONS

We recommend that the State agency:

- credit the Federal Government $2,030,015 for its share of underpaid refunds and

- develop and implement oversight procedures to ensure that FHKC recoups required refunds and reconciles experience adjustment reports to accounting records and supporting documents.

AUDITEE COMMENTS

In written comments on our draft report, the State agency concurred with our recommendations. The State agency stated that it recouped $2,005,219 of the $2,030,015 Federal portion of underpaid refunds and was developing improved procedures for monitoring the experience adjustment process to ensure appropriate reporting, documentation, and reimbursement. The State agency's and FHKC's comments are included in their entirety as Appendix D.

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INTRODUCTION

BACKGROUND

Pursuant to Title XXI of the Social Security Act (the Act), the State Children's Health Insurance Program (SCHIP)[1] provides free or affordable health care coverage to uninsured children in families whose incomes are too high to qualify for Medicaid but too low to afford private health care coverage.

Federal and State Governments fund and administer SCHIP. The Centers for Medicare & Medicaid Services (CMS) administers the program at the Federal level. To participate in the program, a State must receive CMS's approval of its State plan. The State plan is a comprehensive document that defines how each State will operate its program, including program administration, eligibility criteria, service coverage, and provider reimbursement.

The Federal medical assistance percentages (FMAP) are used to determine the amount of Federal financial participation (FFP), or matching funds, for State expenditures in Medicaid and other social services. The Federal Government uses enhanced FMAPs to determine the amount of FFP for State expenditures in SCHIP. The formula for calculating the enhanced FMAP is found under section 2105(b) of the Act. In Florida, the enhanced FMAP ranged from 71.13 percent to 71.25 percent during our audit period.

Florida's State Children's Health Insurance Program

The Florida Agency for Health Care Administration (State agency) operates SCHIP in Florida. The State agency contracts with Florida Healthy Kids Corporation[2] (FHKC) to provide health insurance to children eligible for SCHIP.

During our audit period (October 2003 through September 2007), FHKC entered into 27 multiyear medical service agreements (service agreements) with 11 insurers to provide comprehensive health care services (services) to eligible SCHIP participants in exchange for per member, per month capitated payments (premiums). Florida statute (§ 624.91(5)(b)(10)) requires insurers contracting with FHKC to spend a minimum of 85 percent of total premiums on medical services. This requirement is referred to as the minimum medical loss ratio (MLR).[3]

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[1] This program was renamed the Children's Health Insurance Program as of February 4, 2009 (P.L. 111-3, Feb. 4, 2009).

[2] FHKC is a not-for-profit corporation that was created by the Florida legislature in 1990 to provide comprehensive health insurance coverage to school-aged children.

[3] The actual MLR is determined by dividing the medical expenses that the insurer pays by the total premiums that it receives. (See Appendix A for an example of a refund calculation.)

Service Agreement Experience Adjustment Provision

Thirteen of the twenty-seven FHKC multiyear service agreements contained an MLR refund and reporting provision called the experience adjustment provision. The experience adjustment provision requires insurers to file an annual report (experience adjustment report) in which they calculate whether they have met the 85-percent MLR and determine the appropriate refund, if any. An insurer calculates its minimum MLR by multiplying the total premiums that it received from FHKC by 85 percent and comparing that amount with its actual total expenses for medical services. If an insurer's total medical expenses are less than 85 percent of its total premiums received, it must refund 50 percent of the shortfall to FHKC. (See Appendix A for an example of a refund calculation.) These 13 service agreements resulted in the submission of 22 experience adjustment reports during our audit period.

For the 14 remaining service agreements with no experience adjustment provision, the insurers hired an independent actuary to review the proposed premiums and certify that they met the 85-percent minimum MLR. FHKC considers the actuarial certification to be evidence of compliance with the 85-percent minimum MLR provision.

Every quarter the State agency reports its SCHIP expenditures to CMS for Federal reimbursement on Form CMS-21. Any refund due the Federal Government reduces the expenditure amount reported on Form CMS-21.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our objective was to determine whether the State agency fully recouped the Federal share of the SCHIP experience adjustment refunds due.

Scope

Our audit covered the period October 2003 through September 2007. During that period, 7 insurers submitted a total of 22 experience adjustment reports relating to 13 SCHIP service agreements with FHKC. We limited our review of State agency and FHKC internal controls to those applicable to the submission and review of the experience adjustment reports because our objective did not require an understanding of all internal controls over the SCHIP program.

We conducted our fieldwork from February through November 2010. Our fieldwork included contacting the State agency, FHKC (both in Tallahassee, Florida), and one insurer. We visited the insurer because of the material nature of our findings.

Methodology

To accomplish our objective, we:

- reviewed applicable Federal and State laws, regulations, and guidance;

- interviewed State agency and FHKC officials to identify the policies and procedures related to SCHIP and to gain an understanding of how SCHIP funds are transferred from the State agency to insurers;

- reviewed previous audits of the State agency;

- reviewed FHKC's procedures for disbursing, collecting, and reporting SCHIP funds;

- reviewed the 27 SCHIP service agreements to determine whether those service agreements contained an experience adjustment provision requiring the submission of an experience adjustment report and subsequent refunds;

- reviewed 22 experience adjustment reports, applicable premiums paid, and FHKC and insurer supporting documentation;

- interviewed FHKC officials to (1) determine whether the premiums paid to the plans were properly reported on the experience adjustment reports and (2) determine whether the contractually required experience adjustment reports were filed during the audit period;

- met with one insurer (insurer #2) and requested that it provide:

    - an explanation of its revised experience adjustment reports,

    - support for the medical and prescription expenses on the experience adjustment reports, and

    - verification that payments were made to unrelated parties;

- calculated and validated with FHKC the underpaid and overpaid refunds; and

- discussed the results of our review with the State agency on November 22, 2010.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

FINDINGS AND RECOMMENDATIONS

Overall, the State agency recouped approximately $10.8 million in SCHIP refunds due from 22 experience adjustment reports that insurers submitted during our audit period. Nine experience adjustment reports contained no errors relating to premium payments received from FHKC. However, 13 experience adjustment reports incorrectly reported premium payments from FHKC. Of these 13 incorrect reports, 8 resulted in underpaid refunds, 1 resulted in an overpaid refund, and 4 contained errors having no effect on the refund. As a result, FHKC did not receive appropriate refunds, and the Federal Government was not credited with refunds totaling $3,107,623 ($2,030,015 Federal share). These underpaid refunds occurred primarily because the State agency and FHKC did not have policies and procedures requiring FHKC personnel to review experience adjustment reports and reconcile them to supporting records.

FEDERAL AND STATE REQUIREMENTS

Federal Requirements

Federal regulations (45 CFR §§ 92.22(a) and (b)) state that grant funds may be used only for allowable costs of grantees, subgrantees, and cost-type contractors. Allowable costs are determined in accordance with the cost principles applicable to the organization incurring the costs. For a State Government, the cost principles in Office of Management and Budget Circular A-87 (2 CFR part 225) are applicable. Section C.4.a of Appendix A in 2 CFR part 225 states that, to the extent applicable, "credits accruing to or received by the governmental unit relate to allowable costs, they shall be credited to the Federal award either as a cost reduction or cash refund, as appropriate." Section C.4.a adds that "applicable credits refer to those receipts or reduction of expenditure-type transactions that offset or reduce expense items allocable to Federal awards as direct or indirect costs."

Pursuant to 45 CFR § 92.40(a), "Grantees are responsible for managing the day-to-day operations of grant and subgrant supported activities. Grantees must monitor grant and subgrant supported activities to assure compliance with applicable Federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function or activity."

Furthermore, section 2105(e) of the Act provides that "[t]he Secretary [of Health & Human Services] may make payments under this section for each quarter on the basis of advance estimates of expenditures submitted by the State and such other investigation as the Secretary may find necessary, and may reduce or increase the payments as necessary to adjust for any overpayment or underpayment for prior quarters." Section 2105(b) of the Act states that "the 'enhanced FMAP,' for a State for a fiscal year, is equal to the Federal medical assistance percentage … for the State increased by a number of percentage points equal to 30 percent of the number of percentage points by which (1) such Federal medical assistance percentage for the State is less than (2) 100 percent; but in no case shall the enhanced FMAP for a State exceed 85 percent."

State Requirements

Section 10.3 of the Florida State plan states that "the [S]tate assures that it will comply with all applicable Federal laws and regulations, including but not limited to the Federal grant requirements and Federal reporting requirements."

Florida Statute 624.91(5)(b)10 authorizes FHKC to contract with insurers for the provision of comprehensive insurance coverage to participants. The statute establishes the maximum administrative cost for an FHKC contract at 15 percent and the minimum MLR at 85 percent.

INCORRECT EXPERIENCE ADJUSTMENT REPORTS

Overall, the State agency recouped approximately $10.8 million in SCHIP refunds due from 22 experience adjustment reports that insurers submitted during our audit period. Nine reports contained no errors relating to premium payments received from FHKC, but 13 contained incorrect totals. Of these 13 incorrect reports, 8 resulted in underpaid refunds, 1 resulted in an overpaid refund, and 4 contained errors having no effect on the refund. As a result, FHKC did not receive appropriate refunds, and the Federal Government was not credited with refunds totaling $3,107,623 ($2,030,015 Federal share). (See Appendix B.)

Incorrect Experience Adjustment Reports With Underpaid or Overpaid Refunds

Nine incorrect experience adjustment reports resulted in underpaid or overpaid refunds:

- In their calculations for eight experience adjustment reports, the insurers understated the total premiums that FHKC paid. Using a lower total for premiums paid resulted in the insurers reporting an understated minimum MLR amount. This understatement reduced the difference between the minimum MLR amount and the insurers' medical services expense total, thus incorrectly decreasing the refund due FHKC. As a result, the insurers underpaid $3,119,329 ($2,037,206 Federal share) in refunds to FHKC. (See Appendix B.)

- In its calculations for one experience adjustment report, the insurer overstated the total premiums that FHKC paid. Using the higher total for premiums paid overstated the minimum MLR amount by $23,412. As a result, the insurer overpaid $11,706 ($7,191 Federal share) in refunds to FHKC. (See Appendixes B and C.)

Incorrect Experience Adjustment Reports With No Effect on Refund

Four incorrect experience adjustment reports had no effect on the refund:

- In their calculations for three experience adjustment reports, the insurers understated the total premiums that FHKC paid. However, the insurers incurred and reported enough medical expenses to offset the understatement. As a result, the insurers refunded the correct amount to FHKC. (See Appendix C.)

- In its calculations for one experience adjustment report, the insurer overstated the total premiums that FHKC paid. As a result, the insurer miscalculated the minimum MLR amount. However, the error did not affect the refund due FHKC because the insurer's total medical expenses remained above the 85-percent minimum MLR amount.

POLICIES AND PROCEDURES DID NOT REQUIRE RECONCILIATION

The underpaid refunds occurred primarily because the State agency and FHKC did not have policies and procedures requiring that the premiums reported on the experience adjustment reports be reviewed and reconciled to supporting records. The State agency said that it had not reconciled the experience adjustment reports to the FHKC accounting records and supporting documents before our audit.

RECOMMENDATIONS

We recommend that the State agency:

- credit the Federal Government $2,030,015 for its share of underpaid refunds and

- develop and implement oversight procedures to ensure that FHKC recoups required refunds and reconciles experience adjustment reports to accounting records and supporting documents.

AUDITEE COMMENTS

In written comments on our draft report, the State agency concurred with our recommendations. The State agency stated that it recouped $2,005,219 of the $2,030,015 Federal portion of underpaid refunds and was developing improved procedures for monitoring the experience adjustment process to ensure appropriate reporting, documentation, and reimbursement. The State agency's and FHKC's comments are included in their entirety as Appendix D.

APPENDIXES

APPENDIX A: EXAMPLE OF A REFUND CALCULATION

A. Total premiums paid during the year	$10,000,000
B. Medical loss ratio (MLR) amount (85 percent of line A)	8,500,000
C. Actual medical expenses incurred during the year	8,000,000
D. Difference between MLR amount and actual medical expenses (Subtract line C from line B)	500,000
E. Refund due Florida Healthy Kids Corporation (FHKC) (50 percent of line D)	**$250,000**

APPENDIX B: SUMMARY OF UNDERPAID REFUNDS BY INSURER

	Period	(Over)/Under Reported Premium	Refund Over/ (Under) Paid	Net Underpaid Refund
Insurer #1	2006–2007	$9,526	($4,048)	
				$4,048
Insurer #2	2003–2004	4,338,497	(1,927,454)	
Insurer #2	2004–2005	19,492,829	(878,898)	
Insurer #2	2005–2006	4,931,303	0	
				2,806,352
Insurer #3	2003–2004	556,748	(71,850)	
Insurer #3	2004–2005	439,723	(186,882)	
Insurer #3	2005–2006	2,243	(953)	
				259,685
Insurer #4	2003–2004	(466,692)	0	
Insurer #4	2004–2005	113,459	0	
Insurer #4	2005–2006	24,577	(10,446)	
Insurer #4	2006–2007	189,957	0	
				10,446
Insurer #5	2003–2004	91,291	(38,798)	
Insurer #5	2005–2006	(27,544)	11,706	
				$27,092
			Total	**$3,107,623**

APPENDIX C: SUMMARY OF UNDERPAID REFUNDS BY RESULTS

Incorrect Experience Adjustment Reports With an Effect (Table 1)

	Period	(Over)/Under Reported Premium	(Underpaid) / Overpaid Refund	Total	Federal Share of Total
Underpayments					
Insurer #1	2006–2007	$9,526	($4,048)		
Insurer #2	2003–2004	4,338,497	(1,927,454)		
Insurer #2	2004–2005	19,492,829	(878,898)		
Insurer #3	2003–2004	556,748	(71,850)		
Insurer #3	2004–2005	439,723	(186,882)		
Insurer #3	2005–2006	2,243	(953)		
Insurer #4	2005–2006	24,577	(10,446)		
Insurer #5	2003–2004	91,291	(38,798)		
				$3,119,329	**$2,037,206**
Overpayments					
Insurer #5	2005–2006	(27,544)	11,706		
				(11,706)[1]	(7,191)
			Total underpaid refund	**$3,107,623**	**$2,030,015**

Incorrect Experience Adjustment Reports With No Effect (Table 2)

	Period	(Over)/Under Reported Premium	(Underpaid) / Overpaid Refund	Total	Federal Share of Total
Insurer #2	2005–2006	$4,931,303	$0		
Insurer #4	2004–2005	113,459	0		
Insurer #4	2006–2007	189,957	0		
Insurer #4	2003–2004	(466,692)	0		
			Total	**$0**	**$0**

[1] The overpayment acted as a credit to what Insurer #5 owed FHKC. Therefore, it is shown as a negative number to demonstrate how the net underpaid refund total is determined.

APPENDIX D: AUDITEE COMMENTS

FLORIDA MEDICAID

A Division of the Agency for Health Care Administration

RICK SCOTT GOVERNOR	Better Health Care for all Floridians	ELIZABETH DUDEK SECRETARY

May 3, 2011

Mr. Peter J. Barbera
Regional Inspector General
for Audit Services
Office of Audit Services, Region IV
61 Forsyth Street, SW, Suite 3T41
Atlanta, GA 30303

Re: Report Number A-04-10-06123

Dear Mr. Barbera:

Thank you for the opportunity to respond to the Office of Inspector General's draft report, *Review of Florida's Children's Health Insurance Program Experience Adjustment and Refund Submission Reports.* We would like to take this opportunity to respond to the findings and address your recommendations.

Enclosed is Florida Healthy Kids Corporation's (FHKC) response. The Agency for Health Care Administration (Agency) concurs with FHKC's findings and comments. It should be noted that FHKC started including medical loss ratio requirements in their health plan contracts in 1999 and has recouped over $26 million. As FHKC points out in their response, there are no federal regulations requiring states to implement medical loss ratios in their health plan contracts and no federal definition of medical loss ratio, also referred to as experience adjustments.

Two recommendations for the Agency were included in the Report. The following shows each recommendation and the Agency's response.

- **Credit the Federal Government $2,030,015 for its share of underpaid refunds.**
  FHKC has reimbursed the Agency $2,005,219. FHKC is expecting repayment from the last two health plans, and then FHKC will reimburse the remaining federal share of $24,796. FHKC expects repayment soon, and the Agency will monitor FHKC's reimbursement compliance.

- **Develop and implement oversight procedures to ensure that FHKC recoups required refunds and reconciles experience adjustment reports to accounting records and supporting documents.**
  FHKC and the Agency are developing improved procedures for monitoring the experience adjustment process to ensure appropriate reporting, documentation and reimbursement.

Mr. Peter Barbera
May 5, 2011
Page Two

Thank you for the opportunity to respond to this draft audit report. Should you have any questions regarding our response, please contact Gail Hansen, Program Administrator, at (850) 412-4195.

Sincerely,

[redacted]

Roberta K. Bradford
Deputy Secretary for Medicaid

RKB/gh
Enclosure

Healthy kids Corporation

661 East Jefferson Street
2nd Floor
Tallahassee, Florida 32301
850.224.KIDS(5437)
850.224.0615(FAX)

May 3, 2011

Report Number: A-04-10-06123

Mr. Peter Barbera
Office of Audit Services, Region IV
61 Forsyth Street, SW, Suite 3T41
Atlanta, GA 30303

Dear Mr. Barbera:

Thank you for the opportunity to provide our response to the *Review of Florida's Children's Health Insurance Program Experience Adjustment and Refund Submission Reports* report.

Florida statute 624.91(b)(10) states "...The maximum administrative cost for a Florida Healthy Kids Corporation contract shall be 15 percent. For health care contracts, the minimum medical loss ratio for a Florida Healthy Kids Contract shall be 85 percent...." As with similar rate regulation requirements in the Florida Insurance code, the statute does not require the Florida Healthy Kids Corporation ("FHKC") to spend a minimum of 85% of total premiums on medical services, does not define "medical loss ratio" and does not require the return of funds to the state if the minimum medical loss ratio is not achieved.

In addition, there is currently no federal definition of a medical loss ratio, no established minimum loss ratio and no federal requirement to collect funds from a medical or dental provider if the minimum medical loss ratio is not achieved for Title XXI programs.

Initially, the minimum medical loss ratio requirements and recoveries were voluntary contractual provisions. In 1999 FHKC began phasing in the recovery of funds from the health and dental plans when the minimum medical loss ratio was not achieved. This requirement was inserted into the health and dental contracts over the next few years as contracts were updated or contracts were rebid.

It is important to note that though $10.8 million was voluntarily paid to the Agency for Health Care Administration ("AHCA") for the audit period, a total of more than $26 million has been voluntarily paid to AHCA since FHKC started recovering funds from its health and dental plans. FHKC's practice has always been to remit the state and federal portion of recoveries to AHCA.

FINDING 1 – Incorrect Experience Adjustment Reports - Concur
As of the time of this letter, FHKC has collected $3,070,086 of the $3,107,623 of underpayments from the insurers and has returned $2,005,219 of the $2,030,015 of the Federal share to AHCA. The remaining funds should be collected from the insurers and returned to AHCA in the next 90 days.

FINDING 2 – Policies and Procedures Did Not Require Reconciliation – Concur
FHKC had a process for accepting and accounting for the receipt of these funds and the returning of the funds to different funding sources. The process, however, was not formalized.

As of February 2010, FHKC has established detailed policies and procedures to reconcile the medical loss ratio reports received from its health insurers to address both of these findings.

Healthy Kids is proud to have initiated this practice and of the amount of funds that we have been able to return to the state and federal government to help insure more children. We appreciate the opportunity that this audit afforded us to review and improve our procedures in order to become even better financial stewards of the Children's Health Insurance Program funds. New procedures have been implemented to address the weaknesses noted in the report and FHKC intends to collect the remaining funds identified herein in the next 90 days.

Sincerely,

[redacted]

Rich Robleto
Executive Director