

LEGISLATIVE AUDIT DIVISION

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MEMORANDUM

TO: Legislative Audit Committee Members
FROM: Diedra Murray, Senior Performance Auditor
CC: Monica Lindeen, Commissioner of Securities and Insurance
Jesse Laslovich, Chief Legal Counsel
Adam Schafer, Deputy Commissioner of Securities and Insurance
Christine Kaufmann, Deputy Insurance Commissioner
Jill Sark, Insure Montana Program Manager
DATE: September 2012
RE: Performance Audit Follow up 12SP-36: Insure Montana Program
(orig. 10P-09)
ATTACHMENTS: Original Performance Audit Summary

Introduction

In December 2010, we presented a performance audit of the Insure Montana Program to the Legislative Audit Committee. This memorandum presents background information and summarizes the results of follow-up work.

Overview

We made eight audit recommendations to the State Auditor's Office and one recommendation to the Legislature. Recommendations stressed improving controls over determining eligibility, improving the administration of the program, and ensuring the program operates under clear statutory guidelines. The recommendation directed to the Legislature has not been implemented. While the State Auditor's Office has implemented one recommendation and continues to work towards implementing two recommendations, it partially implemented or did not implement five of the eight recommendations.

Background

Insure Montana was established in 2005 and is administered by the State Auditor's Office. It is a two-part program designed to assist small businesses with the cost of health insurance. The purchasing pool program provides group health insurance through a pool of small businesses. Additionally, participants in the purchasing pool receive subsidy payments to assist with the cost of coverage. The tax credit program provides refundable tax credits to small businesses that offer group health insurance to their employees.

Initial audit work focused on eligibility and payment processes, as well as, the overall operations of the program. Beginning in May 2012, we gathered information from the State Auditor's Office

on its progress towards implementing the audit recommendations. The following summarizes the implementation status of each recommendation.

RECOMMENDATION #1

We recommend the State Auditor's Office require verification of income for both business owners and employees participating in the Insure Montana program.

Implementation Status –Partially Implemented

In February 2012, Insure Montana's program auditors began conducting a targeted audit of income to verify income for both business owners and employees participating in the purchasing pool. During income audits, participating employees are required to submit verification of household income (e.g. most recent tax forms). As of August 2012, the program audited over 1500 business owners and employees and has realized over \$312,467 in annual program savings. The program continues to work towards verifying income for the remaining 800 business owners and employees and plans to have targeted income audits completed by November 2012. Additionally, the program will verify income for new participants as they are added to the purchasing pool program.

While the program is verifying income for purchasing pool participants, the program does not conduct targeted income audits for individuals participating in the tax credit program. Additionally, while the program is currently conducting targeted income audits of the purchasing pool participants, these are one-time audits and the program has not developed or formalized specific procedures for on-going verification of income.

RECOMMENDATION #2

We recommend the State Auditor's Office verify the number of eligible employees for businesses participating in the Insure Montana program.

Implementation Status – Not Implemented

According to the program, the number of eligible employees has not been determined to be an error prone area; therefore, program auditors are currently not verifying the number of eligible employees. According to program staff, once program auditors complete targeted income audits, the auditors will conduct full business audits that include verifying the number of employees. While the program indicates it will verify eligible employees, at this point specific implementation steps have not been taken and it is unclear how the program will verify eligible employees. As stated in the original report, during previous fiscal years, full business audits were completed on less than 10 percent of businesses in the program. Based on eligibility requirements established in statute, we believe the program could improve its verification of the number of eligible employees by requiring documentation or completing testing to ensure all businesses meet statutory requirements.

RECOMMENDATION #3

We recommend the State Auditor's Office verify all participating businesses' state income tax delinquency status for both purchasing pool and tax credit programs.

Implementation Status – Being Implemented

The Insure Montana Program completed a Memorandum of Understanding (MOU) in April 2012 with the Department of Revenue. While the MOU allows the Department of Revenue and Insure

Montana to share confidential information, the program does not believe state income tax delinquency is an error prone area. Therefore, verification of tax delinquency status has not occurred. The program indicates tax delinquency will be verified when full business audits continue. When this occurs, outside of the MOU, the Department of Revenue has agreed to review 20-40 accounts each month. While this means 15 percent to 30 percent of participating businesses will have income tax delinquency verified each year, the majority of businesses' tax delinquency status will not be verified.

RECOMMENDATION #4

We recommend the State Auditor's Office enhance the current Insure Montana database to ensure program staff have readily available access to a businesses' historical data.

Implementation Status – Being Implemented

According to Insure Montana staff, the system enhancement continues to be included in the backlog list of system enhancements to be completed and has not been given a high priority. When reviewing Insure Montana's Contractor Engagement Proposal related to the database, the statement of work includes a project that will modify the database to have a distinct application every year for businesses and employees participating in the program. If this project is completed, historical application data will be available to program staff.

RECOMMENDATION #5

We recommend the State Auditor's Office:

- A. Enhance its current Insure Montana database to allow for the input of a unique primary identifier for all business owners and participating individuals for both programs.**
- B. Collect and apply the unique primary identifier of business owners and individuals for both programs.**

Implementation Status – Not Implemented

As stated in the original report, the Insure Montana program collects and stores Social Security Numbers or Federal Employer ID Numbers for all individuals and businesses participating in the purchasing pool program. However, the program has not enhanced the database to allow for the input of unique identifiers for tax credit participants.

Based on initial audit work, we determined the collection of unique primary identifiers for tax credit businesses' employees would assist the program in ensuring employees and businesses meet eligibility requirements. According to the State Auditor's Office, it is making a concerted effort to minimize the collection and use of Social Security Numbers; therefore, since employees of tax credit businesses do not receive the tax credits, the program has made the decision not to collect Social Security Numbers for tax credit participants.

RECOMMENDATION #6

We recommend the State Auditor's Office address collections and overpayments by either:

- A. Providing assistance and incentive payments in arrears, or**
- B. Applying assistance and incentive payments directly to the premium.**

Implementation Status – Partially Implemented

In its initial response, the State Auditor's Office did not concur with this recommendation and has not implemented the specific recommendation on the same basis. However, the program indicates it continues to take other measures to decrease the number of overpaid benefits. For example, the program receives weekly reports from one of the insurance providers notifying them of when an individual has dropped coverage.

RECOMMENDATION #7

We recommend the State Auditor's Office identify the impacts of current related employer restrictions to determine if there are unintended program results.

Implementation Status – Implemented

The State Auditor's Office reviewed the impacts of the related employer restrictions and during the 2011 Legislative session, HB125 passed and eliminated the unintended impacts of the previous definition of related employer.

RECOMMENDATION #8

We recommend the State Auditor's Office comply with §33-22-2001(2), MCA, for current activities and if necessary, address statutory changes to assure future, long-term options for the purchasing pool.

Implementation Status – Not Implemented

According to the State Auditor's Office, the Insure Montana Program chose not to pursue the development of a plan to address compliance with §33-22-2001(2), MCA, since the federal Affordable Care Act will require all small group plans, including association plans, to determine premium rates by an adjusted community rate. Since the State Auditor's Office did not pursue any changes related to this statute, the State Auditor's Office is currently in noncompliance with §33-22-2001(2), MCA.

RECOMMENDATION #9

We recommend the Legislature ensure the governance responsibilities of the Insure Montana Board of Directors and the Insurance Commissioner are clearly defined.

Implementation Status – Not Implemented

This recommendation was made to the Legislature; therefore, the State Auditor's Office was not required to respond. However, the State Auditor's Office responded by stating it recognizes the possibility that a disagreement between the Commissioner and the Board of Directors could arise, but continues to defer to the will of the Legislature on this issue.