Legislative Audit Division

Performance Audit Summary

Children's Health Insurance Plan November 2002

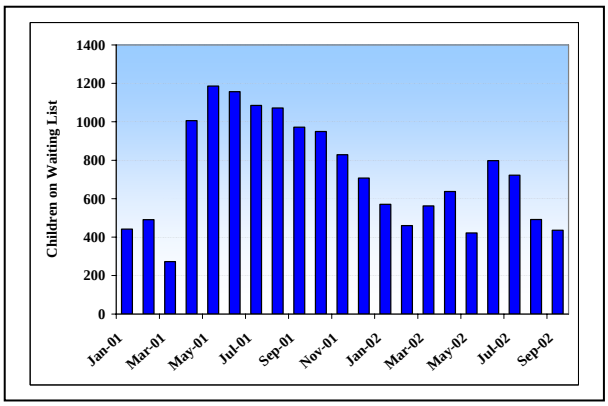
Introduction

The Legislative Audit Committee requested a performance audit of the Children's Health Insurance Plan, commonly known as CHIP. CHIP is a relatively new federal and state program designed to provide health insurance to children from low-income families. The Montana legislature passed enabling legislation in 1999. The Health Policy and Services Division within Department of Public Health and Human Services (DPHHS) administers the program.

CHIP Program Overview

Congress created the State Children's Health Insurance Program in August 1997. The program was designed to expand health insurance coverage to children from working families with incomes too high to qualify for Medicaid, but too low to afford private insurance. Individual state programs are funded with a combined federal – state match. Montana's federal share for CHIP is 81 percent and is among the highest in the nation. It requires a corresponding state match of 19 percent.

DPHHS began Montana's CHIP program as a pilot program in December 1998. This allowed 940 children to be enrolled in the program. Montana's CHIP program was fully operational in fiscal year 2001 when maximum program enrollment was attained and 9,700 children were enrolled in the program. Enrollment in Montana's CHIP program is limited by state funding constraints. The chart below reflects the number of CHIP eligibles on the waiting list from January 2001 to September 2002.



In order to be eligible for CHIP, a child must be under 19 years old, a Montana resident, US citizen or qualified alien, not currently insured, ineligible for Medicaid, and ineligible for coverage under Montana's state employee benefit plan. In addition, a family's annual countable income must be less than 150 percent of the federal poverty level. There are no asset limits for CHIP eligibility, which is a key difference from eligibility requirements for Medicaid.

Children who meet program requirements are eligible to receive 12 months of coverage. Key health benefits available to CHIP enrolled children include: hospitalization, in-patient services, outpatient services, physician exams, well-child care, prescription drugs, x-ray services, laboratory tests, vision exams, and mental health services. DPHHS expanded this basic care plan with limited provisions for dental care and eyeglasses. There are no enrollment fees or premium cost sharing required for participation in CHIP. However, families are required to submit a co-payment for some services.

CHIP Program Well Managed

Overall, we found the CHIP program is administered in an efficient manner and key areas of the operation are well organized. Audit testing revealed program operations generally comply with related federal and state requirements. We found program management is responsive to recognizing system inefficiencies or bottlenecks and correcting them. The program is run in a pro-active manner and management and staff search for better ways to do things.

During the audit, we performed specific testing and review of CHIP program operations. We reached the following conclusions regarding program operations.

- The department developed a workflow process that ensures CHIP applications are processed in a timely manner and workload is actively managed.
- Eligibility decisions generally comply with federal and state CHIP program requirements.
- The computer system used to assist with screening applicant eligibility (TESS) functions as intended and has safeguards in place to prevent unauthorized access. Data accurately reflects application information provided and supporting documents.
- CHIP eligibility is re-certified every 12 months for each enrolled member as required by federal and

state standards. The department has an effective and efficient re-certification process in place.

- Department staff administers the CHIP waiting list in a fair and equitable manner.

- The department established procedures and controls that ensure only children who meet eligibility criteria during enrollment and re-enrollment receive CHIP sponsored health insurance and those who are determined to be ineligible lose coverage.

- The department developed a process for ensuring applicants ineligible for CHIP are referred to other children's health care programs.

- The CHIP program is operated with a low ratio of spending on administration and insurance premiums are reasonable when compared to other states.

Improving Program Operations

Our review identified three areas where the department could improve administration and operation of the CHIP program.

1. ***Improve the process of estimating CHIP applicant's annual family income by expanding policy, providing on-going staff training, and implementing a quality control process. Eligibility decisions could be better documented by modifying the database to make the notes section a compulsory field.***

2. ***Refine the system used by department management to override the automated waiting list function by expanding policy to include specific guidance and developing a process to fully document any overrides performed by department management.***

3. ***Streamline the application process by relying solely on the department's universal application and eliminating continued use of the CHIP-only application.***

CHIP Federal Matching Grants

Congress appropriated more than $40 billion over a ten-year period in order to fund states' CHIP programs. Annual federal allotments are made available to states each year from the beginning of the program in 1998 through 2007. States have a three-year window to expend, or draw down, their annual federal allotment. For example, states had until September 2000 to spend federal allotments granted in October 1997. Unexpended amounts revert to the federal government and are redistributed to other states. CHIP is funded from a federal block grant that requires a state match. For the 2003 Biennium, Montana's CHIP state matching rate is approximately 19 percent.

Montana is not using its entire federal allocation because it would take additional state matching funds. As a result, parts of the federal funds allocated to Montana were not used and were permanently reverted to the federal government. The state reverted unspent federal CHIP grants from 1998, 1999, and 2000. Portions of 1998 and 1999 reverted allocations were re-allocated to the state; however, over $4.6 million was permanently reverted. The current pattern of not using all federal funds is resulting in an accumulation of unspent federal matching funds. When the Legislature convenes in 2003, federal grants for 2001, 2002, and 2003 will be available to the state. For this three-year grant period, over $27.9 million in federal CHIP grants will be available for use during the 2005 biennium. Estimates show it would take $6.5 million of state funding to fully utilize the federal funds available to Montana from 2001, 2002, and 2003 grants. In addition, federal grants for 2004 and 2005 will be available to the state beginning October 2003 and October 2004 respectively. The amount of these federal grants is unknown at this time.

Expenditure and Funding Reductions

DPHHS Actions taken to control spending and avoid a supplemental appropriation had a significant impact on CHIP. According to department management, General Fund allocations were reduced by approximately $220,000 in each year of the 2003 biennium. Since CHIP utilizes state and federal fund matches, General Fund reductions result in decreased use of federal matching funds. Thus, additional federal matching grants will be reverted. Using the current matching rate of 19 percent state and 81 percent federal, it is estimated the corresponding reduction in use of federal funds is $937,900 for each year of the current biennium.

Steps taken by the department to implement the reduction in funding included:

- Lowering the CHIP enrollment cap from 9,700 to 9,350.
- Reducing mental health services available to children enrolled in CHIP.
- Electing not to renew Outreach contracts in order to reduce the number of program applications.

For a complete copy of the report (02P-03) or for further information contact the Legislative Audit Division at 406-444-3122; e-mail to lad@mt.gov; or check the web site at http://leg.mt.gov/audit.