



State of Nevada
Department of Administration
Division of Internal Audits

Audit Report

**Department of Health and Human Services
Division of
Health Care Financing and Policy
Nevada Check Up**

Report No. 11-03
June 2011

EXECUTIVE SUMMARY
Division of Health Care Financing and Policy

Introductionpage 1

**Objective: Should Nevada Check Up
Amend its Shared Costs?**

Evaluate using an actuary to optimize premiums and co-pays..... page 4

Using an actuary to optimize premiums and co-pays could benefit the State and recipient families. Recipient families are low income families who are not Medicaid eligible that receive Child Health Insurance through a federal-state program known as Nevada Check Up. Nevada Check Up may require premium and co-pays from recipient families; however, Nevada Check Up only charges a premium. Nevada Check Up has not used an actuary when setting its premium rates.

Appendix A.....page 6

Service Categories Offered by Surveyed States

Appendix B.....page 8

Division of Health Care Financing and Policy Response and Implementation Plan

Appendix C.....page 9

Timetable for Implementing Audit Recommendation

INTRODUCTION

At the direction of the Executive Branch Audit Committee, we conducted an audit of the Division of Health Care Financing and Policy. Our audit addressed the following four questions:

- ✓ What is the Division's role?
- ✓ What services must the Division provide?
- ✓ Is the State the proper level of government to provide these services?
- ✓ If State government is the appropriate level of government, is the Division carrying out its duties efficiently and effectively?

Our audit focused on how the Nevada Check Up program (program) shares costs with its recipient families.

Division's Role and Public Purpose

The Division of Health Care Financing and Policy is within the Department of Health and Human Services. The Division administers two major federal health coverage programs: Medicaid and the Children's Health Insurance Program, which is called Nevada Check Up. Both programs provide medically necessary health care to eligible Nevadans. For fiscal year 2010, the program had about 22,000 enrolled recipients.

In 2010, the Division had 25.51 authorized positions managing Nevada Check Up. The Division's budget for Nevada Check Up was approximately \$33.6 million. Of this amount, about \$21.3 million is federal funds and \$12.4 million is State General Fund.¹

The State is the proper level of government to administer these programs as provided for in Title XXI of the federal Social Security Act (Act). The Act designates the states as partners with the federal government to implement and jointly fund Medicaid programs.

¹ The federal government's average match rate over the last three years was about 66 percent; the State general fund average match rate was about 34 percent.

Scope and Objective

We began the audit in July 2010. Our audit addressed whether the State can optimize the premiums and co-pays using an actuary. During the audit, we reviewed and discussed the agency's procedures with management and staff; analyzed the program's premium data; and reviewed the program's State Plan. We interviewed the Nevada Division of Insurance, Magellan/First Health,² and the Centers for Medicare and Medicaid Services. We also surveyed other states. We concluded fieldwork and testing in February 2011.

Our audit focused on the following objective:

- ✓ Should Nevada Check Up amend its shared costs?

The Division of Internal Audits expresses appreciation to the Division's management and staff for their cooperation and assistance throughout the audit.

Contributors to this report included:

Warren Lowman
Executive Branch Auditor

Dennis M. Stoddard, MBA
Executive Branch Auditor

² Magellan/First Health is the Third Party Administrator and assists the program in processing eligibility.

Division of Health Care Financing and Policy Response and Implementation Plan

We provided draft copies of this report to Division officials for their review and comments. Their comments have been considered in the preparation of this report and are included in Appendix B. In its response, the Division accepted the recommendation. Appendix C includes a timetable to implement our recommendation.

NRS 353A.090 specifies that within six months after the Executive Branch Audit Committee releases the final audit report, the Chief of the Division of Internal Audits shall evaluate the steps the Division has taken to implement the recommendation and shall determine whether the steps are achieving the desired results. The Chief shall report the six-month follow-up results to the Committee and Division officials.

The following report contains our findings, conclusions, and recommendation.

Should Nevada Check Up Amend its Shared Costs?

The Nevada Check Up program (program) should evaluate using an actuary to optimize the premium and co-pay balance.

The program provides health coverage to uninsured children. A family's eligibility for the program depends on their income and not being eligible for Medicaid. The program does not cover the parent(s).

Generally, the health care costs have been shared 66-34 percent, federal-to-state. This sharing ratio has varied slightly over the last three years.

Options for sharing costs with families include:

- **Premiums** – paid each year in order to receive coverage. Premiums may vary depending on the family size and/or income. A small portion of Nevada families do not pay premiums; for others the premiums range from \$100 to \$300 annually based on income.
- **Co-pays** – paid to the health care provider at the time of service. The amount of co-pays depends on the service provided to the recipient. Nevada has not adopted co-pays.

We compared Nevada's service coverage, premium rates, and co-pays to 11 other western states.³

Nevada provides more services than the average of other states surveyed (Appendix A). Services include physician office visits, rehabilitation, case management, hospitals, pharmacy, transportation, and dental services.

Nevada has higher premiums than most other states. However, Nevada is one of four surveyed states that have not adopted co-pays for cost sharing by recipient families. Exhibit I shows states' premiums and co-pays.

³ Arizona, California, Colorado, Idaho, Montana, New Mexico, Oregon, Texas, Utah, Washington, and Wyoming.

Exhibit I

States' Premiums and Co-pays

State	Annual Premiums	Co-pays
Nevada	✓	
Arizona	✓	
California	✓	✓
Colorado	✓	✓
Idaho	✓	✓
Montana		✓
New Mexico		✓
Oregon		
Texas	✓	✓
Utah	✓	✓
Washington	✓	
Wyoming	✓	✓

The program increased its premiums in 2008 between 14 and 67 percent depending upon the family income level without using an actuary. Actuaries analyze the financial consequences of risk. Other states use actuaries to create premium and co-pay structures.

Nevada should consider amending the premium and co-pay structure. They could use an actuary to determine the optimum balance for cost sharing that would benefit recipient families and the State.

Recommendation

1. Evaluate using an actuary to optimize premiums and co-pays.

Appendix A

Service Categories Offered by Surveyed States

Section Description	Nevada	Arizona	California	Colorado	Montana	Oregon	Wyoming	Washington
Inpatient Services	1	1	1	1	1	1	1	1
Outpatient services	1	1	1	1	1	1	1	1
Physician Services	1	1	1	1	1	1	1	1
Surgical Services	1	1	1	1	1	1	1	1
Clinic Services	1	1	0	1	1	1	1	1
Prescription Drugs	1	1	1	1	1	1	1	1
Over-the-Counter Medications	1	1	0	0	0	1	0	1
Laboratory and Radiological Services	1	1	1	1	1	1	1	1
Prenatal Care & Pre-pregnancy Family Services & Supplies	1	1	1	1	1	1	1	1
Inpatient Mental Health Services (other)	1	1	1	1	1	1	1	1
Outpatient Mental Health (other)	1	1	1	0	1	1	1	1
Durable Medical Equipment & Other Medically-related or Remedial Devices	1	1	1	1	1	1	1	1
Disposable Medical Supplies	1	1	1	0	0	1	1	1
Home & Community-based Health Care Services	1	0	0	1	0	1	0	1
Nursing Care Services	1	1	0	0	0	1	1	1
Abortion (limited)	1	1	1	1	1	1	1	1
Dental Services (details below)	1	1	1	1	1	1	1	1
Inpatient & Residential Substance Abuse	1	1	1	0	1	1	1	1
Outpatient Substance Abuse	1	1	1	1	1	1	1	1
Case Management	1	1	0	1	0	1	1	1

Section Description	<u>Nevada</u>	<u>Arizona</u>	<u>California</u>	<u>Colorado</u>	<u>Montana</u>	<u>Oregon</u>	<u>Wyoming</u>	<u>Washington</u>
Care Coordination Services	1	1	0	0	0	0	0	1
Physical Therapy, Occupational Therapy, & Services for Speech, Hearing, & Language Disorders	1	1	1	1	1	1	1	1
Hospice Care	1	1	1	1	0	1	0	1
Any other medical, diagnostic, screening, preventive, restorative, remedial, therapeutic, or rehabilitative services	1	1	0	0	1	1	1	1
Premiums for Private Health Care Insurance Coverage	0	0	0	0	0	1	0	0
Medical Transportation	1	1	1	1	0	1	1	1
Enabling Services (such as transportation, translation, and outreach)	1	1	0	0	1	1	0	1
Any other health care services or items specified by the Secretary & not included under this section	0	1	0	1	1	1	1	0
Total services offered:	26	26	18	19	19	27	22	26

Table notes:

1. The average number of service categories provided is about 23.
2. Source of service information is the current State Plan filed with Centers for Medicare and Medicaid Services and posted on its web site.
3. Data for Idaho, New Mexico, Texas, and Utah state plans were not available.

Appendix B

Division of Health Care Financing and Policy Response and Implementation Plan



BRIAN SANDOVAL
Governor

STATE OF NEVADA
DEPARTMENT OF HEALTH AND HUMAN SERVICES
DIVISION OF HEALTH CARE FINANCING AND POLICY
1100 E. William Street, Suite 101
Carson City, Nevada 89701
(775) 684-3600

MICHAEL J. WILLDEN
Director

CHARLES DUARTE
Administrator

April 20, 2011

William Chisel, CPA, Chief
Nevada Division of Internal Audits
3427 Goni Rd., Suite 103
Carson City, NV 89706

RECEIVED

APR 26 2011

DIVISION OF INTERNAL AUDITS

Dear Mr. Chisel:

This is follow up to your letter of April 5, 2011 requesting a response to the audit recently completed by the Division of Internal Audits: Should Nevada Check Up Amend its Shared Costs. Thank you for the valuable information provided as a result of this audit. The Division of Health Care Financing and Policy (DHCFP) agrees with the recommendation to investigate options available for cost sharing, including how these options may impact service utilization in a manner that benefits recipient families and the State. The DHCFP had not pursued utilizing an actuary, but is intrigued by this suggestion and is in agreement this is worth evaluating.

The DHCFP is in the process of investigating and clarifying the Federal rules regarding our ability to utilize premiums and co-payments in the Nevada Check Up program and is waiting for a response from the Centers for Medicare and Medicaid Services (CMS) to further understand the options available. During the next six months the agency will contact other states to evaluate the effectiveness and success of their beneficiary cost sharing programs and will determine if moving forward with an actuarial analysis in Nevada would be advantageous. By the end of September 2011, the DHCFP will be able to provide further information on the next actions to be taken and the associated timeframes.

If you have any questions, please contact Elizabeth Aiello, Deputy Administrator, at (775) 684-3679 or elaiello@dhcfp.nv.gov.

Sincerely,

A handwritten signature in blue ink, appearing to read "Charles Duarte".

Charles Duarte
Administrator

Cc: Michael J. Willden, Director, Department of Health and Human Services
Elizabeth Aiello, Deputy Administrator
Nova Murray, Nevada Check Up Chief
Patty Thompson, Audit Unit Chief

Appendix C

Timetable for Implementing Audit Recommendation

In consultation with the Division, the Division of Internal Audits categorized the recommendation contained within this report into an implementation time frame of less than six months. The Division should begin taking steps to implement the recommendation as soon as possible. The Division's target completion date is incorporated from Appendix B.

<u>Recommendation</u>	<u>Time Frame</u>
1. Evaluate using an actuary to optimize premiums and co-pays. (page 5)	Sep 2011

The Division of Internal Audits shall evaluate the action taken by the Division of Health Care Financing and Policy concerning the report recommendation within six months from the issuance of this report. The Division of Internal Audits must report the results of its evaluation to the Committee and the Division.