



DEPARTMENT OF HEALTH AND HUMAN SERVICES

OFFICE OF INSPECTOR GENERAL

WASHINGTON, DC 20201



July 24, 2012

TO: Marilyn Tavenner
Acting Administrator
Centers for Medicare & Medicaid Services

FROM: /Gloria L. Jarmon/
Deputy Inspector General for Audit Services

SUBJECT: Not All of Colorado's Claimed State Children's Health Insurance Program Expenditures Were Allowable (A-07-12-02780)

Attached, for your information, is an advance copy of our final report on Colorado's State Children's Health Insurance Program expenditures. We will issue this report to the Colorado Department of Health Care Policy & Financing within 5 business days. The review was requested by the U.S. Department of Health and Human Services, Office of Inspector General, Office of Investigations.

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 Patrick J. Cogley, Regional Inspector General for Audit Services, Region VII, at (816) 426-3591 or through email at Patrick.Cogley@oig.hhs.gov. Please refer to report number A-07-12-02780.

Attachment



DEPARTMENT OF HEALTH AND HUMAN SERVICES

OFFICE OF INSPECTOR GENERAL



OFFICE OF AUDIT SERVICES, REGION VII
601 EAST 12TH STREET, ROOM 0429
KANSAS CITY, MO 64106

July 25, 2012

Report Number: A-07-12-02780

Ms. Susan E. Birch
Executive Director
Colorado Department of Health Care Policy & Financing
1570 Grant Street
Denver, CO 80203-1818

Dear Ms. Birch:

Enclosed is the U.S. Department of Health and Human Services, Office of Inspector General (OIG), final report entitled *Not All of Colorado's Claimed State Children's Health Insurance Program Expenditures Were Allowable*. 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 call me at (816) 426-3591, or contact James Korn, Audit Manager, at (303) 844-7153 or through email at James.Korn@hhs.oig.gov. Please refer to report number A-07-12-02780 in all correspondence.

Sincerely,

/Patrick J. Cogley/
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 and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**NOT ALL OF COLORADO'S
CLAIMED STATE CHILDREN'S
HEALTH INSURANCE
PROGRAM EXPENDITURES
WERE ALLOWABLE**



Daniel R. Levinson
Inspector General

July 2012
A-07-12-02780

Office of Inspector General

<http://oig.hhs.gov>

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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

The Balanced Budget Act of 1997 expanded the Social Security Act and created Title XXI, the State Children's Health Insurance Program (SCHIP). SCHIP (which was renamed the Children's Health Insurance Program in 2009, after our audit period) allows States to provide 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. Colorado implemented the SCHIP, which it called the Child Health Plan Plus program, at the State level in 1998. In Colorado, the Department of Health Care Policy & Financing (State agency) administers the Child Health Plan Plus program as well as Medicaid and a variety of other programs for Colorado's low-income families, the elderly, and persons with disabilities.

On a quarterly basis, the State agency reports its quarterly SCHIP expenditures to the Centers for Medicare & Medicaid Services (CMS) on the standard Form CMS-21, Quarterly State Children's Health Insurance Program, Statement of Expenditures for Title XXI (CMS-21 report). CMS, which administers the SCHIP at the Federal level, reimburses a portion of the State agency's SCHIP expenditures, according to the enhanced Federal medical assistance percentage in effect for that fiscal year (FY).

The State agency claimed Federal reimbursement for SCHIP payments totaling \$490,952,500 (\$319,197,679 Federal share), for which it was reimbursed \$319,364,922 during Federal FYs 1998 through 2007 (October 1, 1997, through September 30, 2007).

OBJECTIVE

Our objective was to determine whether SCHIP expenditures that the State agency claimed during FYs 1998 through 2007 were allowable pursuant to Federal requirements.

SUMMARY OF FINDINGS

Although the State agency correctly claimed SCHIP expenditures for FY 2007, not all SCHIP expenditures that the State agency claimed during FYs 1998 through 2006 were allowable pursuant to Federal requirements. For this time period, the State agency incorrectly overdraw Federal funds totaling \$2,837,860. Specifically, the State agency received overpayments consisting of:

- reimbursements of \$2,484,065 (Federal share) for expenditures totaling \$3,821,639 that were claimed by the State agency during FYs 2005 and 2006 but were not based on actual costs;
- reimbursements of \$186,529 (Federal share) that resulted from the exclusion of premium collections totaling \$286,967 during FY 2000; and

- overdrawn funds of \$167,242 (Federal share) that occurred because during FYs 1998 through 2005, the State agency cumulatively drew down more funds from CMS's Payment Management System than it had claimed.

(There is a \$37 (\$24 Federal share) difference between the sum of the dollar amounts in these three sub-bullets and the total of \$2,837,860 (Federal share). This difference is due to a \$40 CMS-21 reporting error in FY 2004 and to cumulative (\$3) rounding errors.)

The overpayments occurred because the State agency did not adequately track unclaimed costs, fully correct a premium collection error, or adequately reconcile quarterly draws to its submitted CMS-21 reports.

We verified that during FY 2006, the State agency implemented internal control improvements that would, going forward, correct the internal control deficiencies that had allowed the overpayments to occur during the FY 1998 through 2006 timeframe. These improvements were effective for the latter part of FY 2006 and throughout FY 2007.

RECOMMENDATION

We recommend that the State agency refund to the Federal Government the \$2,837,860 incorrectly claimed as the Federal share of SCHIP expenditures for FYs 1998 through 2006.

STATE AGENCY COMMENTS

In written comments on our draft report, the State agency concurred with our recommendation and agreed to refund the \$2,837,860. The State agency's comments are included in their entirety as the Appendix.

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INTRODUCTION

BACKGROUND

State Children's Health Insurance Program

The Balanced Budget Act of 1997 expanded the Social Security Act and created Title XXI, the State Children's Health Insurance Program (SCHIP). SCHIP allows States to provide 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.¹ Colorado implemented the SCHIP, which it called the Child Health Plan Plus program, at the State level in 1998. In Colorado, the Department of Health Care Policy & Financing (State agency) administers the Child Health Plan Plus program as well as Medicaid and a variety of other programs for Colorado's low-income families, the elderly, and persons with disabilities.

The Federal Government pays its share of a State's Medicaid payments based on the Federal medical assistance percentage (FMAP), also called the Federal matching rate, which varies depending on the State's relative per capita income. However, the Centers for Medicare & Medicaid Services (CMS), which administers the SCHIP at the Federal level, reimburses SCHIP expenses at an enhanced FMAP that is greater than the FMAP for regular Medicaid expenses. The enhanced FMAP for Colorado's SCHIP payments was 66.38 percent for fiscal year (FY) 1998, 65.42 percent for FY 1999, and 65.00 percent for FYs 2000 through 2006.

On a quarterly basis, the State agency reports its quarterly SCHIP expenditures to CMS on the standard Form CMS-21, Quarterly State Children's Health Insurance Program, Statement of Expenditures for Title XXI (CMS-21 report). CMS reimburses a portion of the State agency's SCHIP expenditures according to the enhanced FMAP in effect for that FY.

Payment Management System

The State agency uses the Payment Management System to make cash draw requests to receive reimbursement from CMS as funds are needed to meet its SCHIP obligations.² The Payment Management System is a full-service centralized grants payment and cash management system. The system is fully automated to receive payment requests, edit them for accuracy and content, transmit the payment to either the Federal Reserve Bank or the U.S. Treasury for deposit into the grantee's bank account, and record the payment transactions and corresponding disbursements to the appropriate account(s).

¹ On February 4, 2009, this program was renamed the Children's Health Insurance Program. Because this change was implemented after our audit period, we refer to the program as SCHIP in this report.

² The Payment Management System is utilized by 14 Federal Departments and is administered by the U.S. Department of Health and Human Services, Division of Payment Management.

Federal Regulations for Primary and Nonprimary Expenditures

Pursuant to Federal SCHIP regulations (42 CFR § 457.618), primary expenditures are (1) expenditures under a State plan for child health assistance to targeted low-income children in the form of a standard benefit package and (2) Medicaid expenditures claimed during the FY. These regulations also define nonprimary expenditures as expenditures for administration, outreach, certain health care initiatives, and certain other types of child health assistance.

These regulations also specify that at the end of each FY, a State's total nonprimary expenditures may not exceed 10 percent of total primary expenditures for that State. We refer to this stipulation as the 10-percent limit.

In guidance to States regarding SCHIP, CMS stated that it recognized that many States would face substantial startup costs in the early years of the program and that such costs would impact the 10-percent limit calculation.³ CMS addressed this concern in its regulations implementing SCHIP. Federal regulations (42 CFR § 457.616(c)(6)(i)) provide that a State may report and claim SCHIP administrative costs incurred in a previous FY in subsequent FYs, as long as the administrative costs did not exceed 10 percent of the primary costs incurred in the FY in which the costs were claimed.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our objective was to determine whether SCHIP expenditures that the State agency claimed during FYs 1998 through 2007 were allowable pursuant to Federal requirements.

Scope

We reviewed SCHIP expenditures totaling \$490,952,500 (\$319,197,679 Federal share) that the State agency claimed on its quarterly CMS-21 reports and for which it was reimbursed \$319,364,922 during FYs 1998 through 2007.⁴

We reviewed only those internal controls necessary to achieve our objective and focused our work on the SCHIP claiming and reimbursement process, including the State agency's CMS-21 reporting process.

We performed fieldwork at the State agency in Denver, Colorado.

³ CMS State Health Official Letter (August 6, 1998), available at <http://downloads.cms.gov/cmsgov/archived-downloads/SMDL/downloads/sho080698.pdf> (accessed on April 12, 2012).

⁴ These dollar amounts include an adjustment of \$58,796 (\$38,217 Federal share) in the quarter ended March 31, 2008, to correct underreported expenditures on the State agency's CMS-21 report for the quarter ended September 30, 2007.

Methodology

To accomplish our objective, we:

- reviewed applicable Federal laws and regulations and State policies and procedures pertaining to the SCHIP program;
- held discussions with State agency officials to gain an understanding of State agency policies, procedures, and guidance regarding SCHIP expenditures;
- examined SCHIP receipts and expenditures recorded in the State agency's electronic accounting system and determined the allowable annual costs in accordance with the Federal requirements;
- compared the annual allowable expenditures with the amounts reported on the CMS-21 reports and the associated draws from the Payment Management System;
- reviewed the schedules used by the State agency to identify and account for unclaimed nonprimary costs;
- calculated the Medicaid overpayments that the State agency had received but that it had not reimbursed to CMS by the end of our fieldwork; and
- discussed our findings with State agency officials on January 26, 2012.

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 RECOMMENDATION

Although the State agency correctly claimed SCHIP expenditures for FY 2007, not all SCHIP expenditures that the State agency claimed during FYs 1998 through 2006 were allowable pursuant to Federal requirements. For this time period, the State agency incorrectly overdrew Federal funds totaling \$2,837,860. Specifically, the State agency received overpayments consisting of:

- reimbursements of \$2,484,065 (Federal share) for expenditures totaling \$3,821,639 that were claimed by the State agency during FYs 2005 and 2006 but were not based on actual costs;
- reimbursements of \$186,529 (Federal share) that resulted from the exclusion of premium collections totaling \$286,967 during FY 2000; and

- overdrawn funds of \$167,242 (Federal share) that occurred because during FYs 1998 through 2005, the State agency cumulatively drew down more funds from CMS's Payment Management System than it had claimed.⁵

The overpayments occurred because the State agency did not adequately track unclaimed costs, fully correct a premium collection error, or adequately reconcile quarterly draws to its submitted CMS-21 reports.

We verified that during FY 2006, the State agency implemented internal control improvements that would, going forward, correct the internal control deficiencies that had allowed the overpayments to occur during the FY 1998 through 2006 timeframe. These improvements were effective for the latter part of FY 2006 and throughout FY 2007.

STATE AGENCY RECEIVED OVERPAYMENTS

Not all SCHIP expenditures claimed by the State agency during FYs 1998 through 2006 were allowable pursuant to Federal requirements. The State agency's eligible SCHIP costs totaled \$486,843,857 for FYs 1998 through 2007, for which the State agency was entitled to receive Federal reimbursement of \$316,527,062.⁶ However, the State agency actually received Federal reimbursement totaling \$319,364,922. Thus, the State agency overdrew Federal funds totaling \$2,837,860.

Claimed Costs Not Based on Actual Costs

Federal regulations (42 CFR § 457.630(c)(2)) state: "This [CMS-21] report is the State's accounting of actual recorded expenditures."

Federal regulations (42 CFR § 457.618(b)) state: "Federal payment will not be available based on a State's non-primary expenditures for a fiscal year which exceed the 10 percent limit of the total of expenditures under the plan."

CMS guidance (State Health Official Letter dated August 6, 1998) states:

All States have the option of delaying the submission of claims for administrative expenditures to [CMS] for payment for up to two years from the date of the expenditure for the service. Claims for administrative [i.e., nonprimary] expenditures which were incurred in one particular fiscal year, and which if submitted in the fiscal year would exceed the 10% limit for that fiscal year may be submitted in a subsequent fiscal year. States delaying the submission of such claims until a subsequent fiscal year will be able to receive reimbursement at the enhanced matching rate, as long as the administrative costs being claimed during

⁵ There is a \$37 (\$24 Federal share) difference between the sum of the dollar amounts in these three sub-bullets and the total of \$2,837,860 (Federal share). This difference is due to a \$40 CMS-21 reporting error in FY 2004 and to cumulative (\$3) rounding errors.

⁶ See footnote 4.

the subsequent fiscal year do not exceed the 10 percent limit for that fiscal year. This will allow States with low benefit expenditures in the early years of their program to eventually receive reimbursement for administrative expenditures at the enhanced Federal matching rate.

The State agency claimed \$3,821,639 (\$2,484,065 Federal share) during FYs 2005 and 2006 for expenditures that were not based on actual costs. This condition arose because of the manner in which the State agency tracked unclaimed costs incurred during the first 4 years (FYs 1998 through 2001) of the Child Health Plan Plus program. During this 4-year timeframe, the State agency incurred substantial startup costs that could not be claimed because of the 10-percent limit. Pursuant to CMS's August 6, 1998, State Medicaid Directors Letter, the State agency claimed administrative costs on the CMS-21 reports on a first-in, first-out basis.⁷ In FY 2002, the State agency's administrative costs dropped below the 10-percent limit, so the State agency began recapturing the unclaimed FY 1998 through 2001 costs. By the first quarter of FY 2005, the State agency had fully recaptured all prior unclaimed costs. However, in FYs 2005 and 2006, the State agency continued to claim additional administrative costs that were no longer based on actual costs.

The State agency used a spreadsheet to track unclaimed startup costs; however, it did not properly record actual costs on the spreadsheet. Instead, the State agency included adjustments made in the accounting system and there was no documentation showing that the spreadsheet was reconciled with the accounting system or the CMS-21 reports. As a result, the State agency lost track of the unclaimed startup costs and continued to seek reimbursement for these costs after they had been fully reimbursed. A State agency official said that the process to keep track of the administrative expenditures was handled by numerous employees over the period; heavy personnel turnover in this functional area thus resulted in inaccurate computations and the overstatement of unclaimed expenditures.

Following the quarter ended March 31, 2006, the State agency implemented controls to properly claim only actual costs on the CMS-21 reports from that point forward.

Premium Collection Error Not Fully Corrected

Title XXI, section 2105(c)(5), of the Social Security Act states: "the amount of the [SCHIP] expenditures ... shall be reduced by the amount of any premiums ... received by the State."

The State agency excluded premium collections from several of the FY 2000 CMS-21 reports, resulting in the overclaiming of benefit costs by \$258,271. The State agency properly included the premium collections in its CMS-21 report for the first quarter of FY 2000; however, it did not report all of the premiums collected during the second and third quarters of FY 2000 on the

⁷ The State agency properly reported allowable nonprimary costs in accordance with the 10-percent limit on the CMS-21 reports that it submitted for the third quarter of FY 1998 through the first quarter of FY 2000; however, it drew down its total incurred costs from the Payment Management System, including those costs above the 10-percent limit. CMS discovered the overdraws during the second quarter of FY 2000 and recouped approximately \$2.9 million. Those recouped costs are not part of our questioned costs for this finding.

CMS-21 reports. Although the State agency made a correction to the premiums in the fourth quarter of that FY, it did not fully cover the missing collections from the prior two quarters. Increasing the benefit costs by \$258,271 erroneously increased the amount of administrative costs allowable under the 10-percent limit. Consequently, in FY 2000 the State agency received reimbursement of \$28,696 above the 10-percent limit. Altogether, total costs of \$286,967 (\$186,529 Federal share) claimed on the CMS-21 reports in FY 2000 were not allowable for Federal reimbursement.

Neither State agency officials nor we were able to determine how this premium collection error occurred. We did not identify any similar error involving premium collections for the other FYs in our audit period.

Draws Exceeded the Amount Claimed Because of Inadequate Reconciliations

We compared the annual SCHIP costs reported on the CMS-21 reports with the State agency's SCHIP draws from the Payment Management System. During our audit period, the State agency claimed \$319,197,679 (Federal share); however, the corresponding draws from the Payment Management System totaled \$319,364,922 in Federal reimbursement. Thus, the State agency drew down \$167,242 in excess of the SCHIP expenditures that it reported on the quarterly CMS-21 reports for FYs 1998 through 2005.

On a quarterly basis, and as part of the improved controls discussed below, a specified employee currently reconciles the draws and actual expenditures. The FY 2006 and 2007 draws properly reconciled with the expenditures reported in the accounting system. However, our findings indicated that the State agency did not adequately perform reconciliations for FYs 1998 through 2005.

INADEQUATE CONTROLS DURING AUDIT PERIOD

The overpayments for FYs 1998 through 2006 occurred because the State agency did not adequately track unclaimed costs, fully correct a premium collection error, or adequately reconcile quarterly draws to its submitted CMS-21 reports.

Following the quarter ended March 31, 2006, the State agency implemented controls to properly claim only actual costs on the CMS-21 reports from that point forward. The premium collection error appeared to be an isolated incident that occurred in FY 2000. The State agency implemented controls in FY 2006 to reconcile the quarterly CMS-21 reports with the Payment Management System draws. We verified that during FY 2006, the State agency implemented internal control improvements that would, going forward, correct the internal control deficiencies that had allowed the overpayments to occur during the FY 1998 through 2006 timeframe. These improvements were effective for the latter part of FY 2006 and throughout FY 2007.

Even though the State agency strengthened its controls to prevent future improper claims going forward, the State agency did not correct the prior claims that it had detected were in error. Accordingly, we are questioning the unallowable costs for this timeframe as discussed in this report.

RECOMMENDATION

We recommend that the State agency refund to the Federal Government the \$2,837,860 incorrectly claimed as the Federal share of SCHIP expenditures for FYs 1998 through 2006.

STATE AGENCY COMMENTS

In written comments on our draft report, the State agency concurred with our recommendation and said that it would refund to the Federal Government the \$2,837,860 (Federal share) on the CMS-21 report for the quarter ended June 30, 2012. The State agency's comments are included in their entirety as the Appendix.

APPENDIX

APPENDIX: STATE AGENCY COMMENTS



COLORADO DEPARTMENT OF HEALTH CARE POLICY & FINANCING

1570 Grant Street, Denver, CO 80203-1818 ■ (303) 866-2993 ■ (303) 866-4411 Fax ■ (303) 866-3883 TTY

John W. Hickenlooper, Governor ■ Susan E. Birch MBA, BSN, RN, Executive Director

June 22, 2012

Patrick J. Cogley, Regional Inspector General for Audit Services
Office of the Inspector General
Office of Audit Services, Region VII
601 E. 12th St., Room 0429
Kansas City, MO 64106

Mr. Cogley:

Please see the attached document that contains the Department of Health Care Policy and Financing's submission of responses to the draft report entitled *Not All of Colorado's Claimed State Children's Health Insurance Program Expenditures Were Allowable* (Report Number A-07-12-02780).

If you have any questions or comments, please contact Kim Nguyen at 303-866-6575 or kim.nguyen@state.co.us.

Sincerely,

/Susan E. Birch MBA, BSN, RN/
Executive Director

SB:ktn

cc: Kim Nguyen, Audit Tracker and Analyst, Department of Health Care Policy and Financing
Greg Tanner, Controller, Department of Health Care Policy and Financing
James Korn, Audit Manager, Office of Inspector General
Michael Chacon, Senior Auditor, Office of Inspector General

Enclosure

"The mission of the Department of Health Care Policy & Financing is to improve access to cost-effective, quality health care services for Coloradans"

colorado.gov/hcpf

**Department of Health Care Policy and Financing's
Initial Response to the
Department of Health & Human Services
Office of Inspector General
*Not All of Colorado's Claimed State Children's Health Insurance Program Expenditures
Were Allowable*
Control Number A-07-12-02780
June 2012**

RECOMMENDATIONS

We recommend that the State Agency refund to the Federal Government the \$2,837,860 incorrectly claimed as the Federal share of SCHIP expenditures for FYs 1998 through 2006.

Response: Concur.

The Department agrees to refund the federal financial participation in the amount of \$2,837,860 incorrectly claimed for SCHIP expenditures between FYs 1998 and 2006. The Department will record this refund of federal financial participation on the CMS-21 for the quarter ending June 30, 2012.