Evaluation Report Summary #03-03a

OFFICE OF THE LEGISLATIVE AUDITOR

STATE OF MINNESOTA

MinnesotaCare

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The Department of Human Services (DHS) needs to improve the way it determines eligibility for MinnesotaCare.

Major Findings:

- In about one-third of cases, state and county staff made errors when determining MinnesotaCare applicants' income. These errors resulted in many enrollees paying the wrong premium and, in a small proportion of cases, incorrect eligibility decisions.

- MinnesotaCare estimates of annual income frequently did not match income reported to other sources, often because individuals' income changed after the initial estimate. As a result, we estimate that participants may have underpaid premiums by $5-22 million.

- We also found that many applicants misreport information on insurance available from their employers, a key factor in determining whether a person is eligible for MinnesotaCare.

- Weaknesses in Department of Human Services (DHS) computer systems, compliance activities, and other means of overseeing MinnesotaCare underlie eligibility errors.

- Over the past four years, large application backlogs at DHS often delayed health care coverage for eligible applicants. DHS recently hired more staff and improved productivity to process applications more promptly, but remains vulnerable to large backlogs because of staffing issues and heavy reliance on manual operations.

Key Recommendations:

- DHS should tighten its income and insurance eligibility policies and do more frequent compliance reviews to check the accuracy of information reported by applicants.

- DHS should expedite the development of new computer systems to help manage cases and determine eligibility, and the department should use the new systems to verify income with tax return and unemployment wage data.

- The Legislature should change the law to allow mid-year premium adjustments when income increases, as it now allows for changes when income decreases.

- DHS should consider alternatives to self-reporting of insurance eligibility.

The full evaluation report, *MinnesotaCare* (#pe03-03), includes the agency's response and is available at 651-296-4708 or:

www.auditor.leg.state.mn.us/ped/2003/pe0303.htm

Enrollment staff did not follow income determination procedures in nearly one-third of cases.

Report Summary

MinnesotaCare is a subsidized health insurance program created in 1992 to help Minnesotans caught in the gap between state-provided health care and affordable private health insurance. To be eligible for MinnesotaCare, applicants must meet a complex set of criteria on income, assets, access to other health insurance, residency, and citizenship. Coverage is available to families and adults without children. Eligibility is determined at the time of initial enrollment and, once enrolled, is redetermined annually. Enrollees pay a monthly premium for coverage.

MinnesotaCare has grown steadily over the past ten years. In fiscal year 2002, average monthly enrollment was 144,000, and total spending was about $390 million. The program is funded from three sources: a state tax on health care providers, federal matching funds, and enrollee premiums. The state share of MinnesotaCare funding is provided through a separate budget account. In recent years, revenues for the account have not kept pace with expenditures, but fund reserves have been sufficient to absorb annual losses. If projections hold true, however, fund reserves will be nearly depleted in fiscal year 2005, and continued funding imbalances may trigger mandatory actions to reduce MinnesotaCare spending.

Our evaluation assesses how accurately agency enrollment staff determine eligibility and how efficiently they process cases. We reviewed a random sample of MinnesotaCare case files processed from January through March 2002, matched income reported by applicants to income data reported to other sources, and surveyed enrollees and their employers about access to employer-based health insurance. We also analyzed data on staffing and the speed of case processing.

Frequent Errors Determining Income Resulted in Many Enrollees Paying the Wrong Premium

For the purposes of MinnesotaCare, state law establishes what income should be counted, and DHS policy sets specific procedures for calculating houshold income. Based on our file review, state and county workers erred in applying DHS procedures in an estimated 32 percent of cases. Errors included using the wrong calculation method and relying on incomplete or unclear documentation. Because of these errors, many enrollees paid the wrong premium. In 63 percent of cases in which we found an income error and the file contained enough information for us to make an independent income determination, the error resulted in a premium difference. The premium differences went in both directions and averaged $295 per year.

Workers' errors in determining income result from a failure to apply correct eligibility policy, lack of clarity in that policy, and reliance on manual eligibility determinations. DHS is counting on computer modernization projects—an online application and an automated eligibility system—to help the agency resolve many of these issues. In DHS' view, automating eligibility decisions is an important part of a long-term solution to problems with consistency and accuracy. We agree and recommend that DHS expedite these projects, but implementation is at least 18 months away. In the meantime, DHS can take interim steps to address problems raised in our report, and we recommend that the department clarify its policies and require workers to take refresher training.

Income Estimates for MinnesotaCare Frequently Did Not Match Actual Income, Often Because Income Changed After Eligibility Was Determined

To ensure that MinnesotaCare is targeted to the intended recipients, the information used to assess eligibility should accurately reflect applicants' circumstances during the time they are enrolled in the program. Our analysis showed, however, that annual income estimates used to decide MinnesotaCare eligibility for 2001 often did not match income that was reported on tax returns and to the unemployment system. In about 27 percent of matched cases, actual income exceeded income used for MinnesotaCare by $5,000 or more. In another 10 percent of cases, actual income was $5,000 or more lower than that reported to MinnesotaCare. Many of these discrepancies occurred because MinnesotaCare generally projects wage income based on a four-week snapshot, but individuals' income often changed later in the year. Had premiums been based on actual income, enrollees would have paid an estimated $5-22 million more in annual premiums. The magnitude of this estimate is uncertain for several reasons, including changes in the economy and the limited sample size.

Mid-year income reviews may allow premiums to better reflect actual income.

By law, DHS is allowed to make mid-year corrections when enrollees' income declines, but is prohibited from doing so when income increases. As a result, discrepancies between MinnesotaCare income and actual income are less of a problem when MinnesotaCare income is too high. But, MinnesotaCare income was understated three times as often as it was overstated. To better ensure that MinnesotaCare income reflects actual income, the Legislature should amend the law to allow mid-year premium adjustments when income increases. Although DHS computer systems currently cannot match income reported to MinnesotaCare with income reported on tax returns and to the unemployment system, the department should ensure that this capacity is built into its new automated eligibility system. Data from these sources would provide workers with additional information, such as indicators of unreported income, to guide eligibility decisions. DHS is required to use electronic data as the primary means of verifying income, but how DHS will obtain data sufficient to do so is an open question.

Many Applicants Reported Incorrect Information About Availability of Insurance From Their Employers

MinnesotaCare relies largely on applicants' self-reporting their compliance with insurance-related eligibility criteria, but these reports are often unreliable. Based on a survey of enrollees and their employers in September 2002, 22 percent of the time, employers reported offering health insurance benefits to some or all of their employees, but enrollees reported that no benefits were offered. There was a greater degree of mismatch when we compared employer survey responses to what enrollees reported on their applications early in 2002. In this comparison, 52 percent of the time, enrollees did not flag possible employer insurance on the application or renewal form when the employer reported offering health insurance benefits.

Since it is important to restrict MinnesotaCare eligibility to those who do not have access to affordable private health insurance, DHS should reconsider the method by which insurance status is verified. For example, it could require employer verification of insurance status for all employed applicants. This would improve the accuracy of insurance information received by DHS, but would impose additional burden on staff, enrollees, and employers. This burden could be reduced by targeting mandatory verification to cases in which applicants are more likely to have access to insurance, such as those with relatively high wage income. In the future, computerized verification could increase compliance with insurance requirements with less administrative burden.

Oversight Was Not Sufficient to Ensure Accurate Eligibility Decisions

DHS uses a variety of means to control the accuracy of MinnesotaCare eligibility decisions, but these mechanisms were not sufficient to prevent the level of inaccuracy found in our review. Weaknesses included lack of refresher training for experienced workers, unclear policies, limited supervisory review of eligibility determinations, and use of application and renewal forms that leave gaps in the information enrollment staff need. By investing in a new automated eligibility system, DHS is taking an important step to provide better controls over eligibility determination. But, the new system alone may not be sufficient to ensure program integrity.

Rapidly growing workloads and paper-driven processes hinder timely processing of new applications.

DHS also does not adequately test whether households enrolled in the program are eligible. DHS is required by law to use random audits to verify reported income and eligibility, but it did its last compliance audit specific to MinnesotaCare in 1995. Also, while county agencies assign staff to investigate fraud, DHS does not have a formal mechanism in place to detect or investigate allegations about MinnesotaCare applicants or enrollees whose cases are processed by DHS. As DHS managers acknowledge, the department should do more frequent compliance audits and should have procedures for identifying and dealing with applicant fraud and abuse.

DHS Recently Reduced Large Application Backlogs, but the Process Is Susceptible to Delays

Over the past four years, Minnesotans sending a MinnesotaCare application to DHS often had to wait more than 20 days for DHS to begin processing the application and 60 to 90 days in total for coverage to begin. MinnesotaCare workloads increased rapidly in recent years, and DHS responded by using additional funding to hire more staff, reassigning staff to handle peaks in new applications, and improving productivity. Recently, DHS reduced the time to begin processing applications to less than one week. Yet, the underlying factors that have made the process susceptible to large backlogs are still present. These factors include problems attracting and retaining enrollment staff and heavy reliance on manual operations.

DHS is investing in a new electronic case management system that it hopes will provide quicker access to case files, more flexibility in assigning work, and more detailed performance data. We recommend several ways that DHS can capitalize on this project by improving the way it collects and uses performance data to manage the program.

Summary of Agency Response:

In a letter dated January 9, 2003, Commissioner of Human Services Kevin Goodno generally agreed with the report's conclusions and recommendations. He stated that "combining large caseloads with manual processing of complicated eligibility rules has resulted in an unacceptable level of inaccuracy." The Commissioner emphasized that "a significant investment in automation is necessary to support the proper administration of MinnesotaCare," and also listed short-term corrective actions that the department is taking, or plans to take, in response to the recommendations. He added that "focus on a short-term response will require a reevaluation of priorities" and that some of the corrective actions may require additional staff investments that may offset potential cost savings.

While recognizing the need to improve the process of determining eligibility, the Commissioner noted that not all of the identified income determination errors resulted in inappropriate eligibility results or premium calculations. He also pointed out that discrepancies between MinnesotaCare point-in-time estimates of income and actual income for the entire year are not necessarily the result of errors. He added, "Increasing the frequency of income reviews may more accurately reflect enrollee income, but because income is fluid in many cases, it would be difficult to ever capture total accuracy."