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**INDEPENDENT STATE AUDITOR'S REPORT
ON COMPLIANCE WITH
THE CATASTROPHIC ILLNESS IN
CHILDREN RELIEF FUND
INCEPTION THROUGH JUNE 21, 2008**

**OFFICIAL AUDIT
REPORT
OCTOBER 31, 2008**

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The Catastrophic Illness in Children Relief Fund (CICRF) was established within the Department of Public Health (DPH) under the provisions of Chapter 29, Section 2ZZ, of the Massachusetts General Laws, and is administered by the CICRF Commission, which was established and is governed by Chapter 111K, Sections 1 through 9, of the General Laws. The CICRF was established to help families bear the excessive financial burden associated with the care of children with high medical and related expenses. The fund is financed by quarterly transfers from the Medical Security Trust Fund. Since its inception, the CICRF has received some 1,443 applications (this includes re-applications) for 1,223 children and has provided \$9,881,638 in reimbursement to approximately 760 families of catastrophically ill children with a wide array of medical conditions and diagnoses.

In accordance with Chapter 11, Section 12, of the General Laws, the Office of the State Auditor has conducted an audit of the CICRF from its inception through June 21, 2008. Our audit was conducted in accordance with applicable generally accepted government auditing standards. The purpose of our audit was to identify the number of children served, review public awareness efforts by the Commission, and determine whether the Commission was in compliance with Chapter 111K of the General Laws, funds were expended for intended purposes, and eligibility verification procedures and supporting documentation existed.

AUDIT RESULTS

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IMPROVEMENTS NEEDED OVER INCOME VERIFICATION AND DOCUMENTATION

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We reviewed 25 recipient files to determine how DPH verifies and documents family income to determine financial eligibility for CICRF benefits and noted several variations in the process. More specifically, we noted:

- six instances where income was verified using a combination of Internal Revenue Service (IRS) 1040 Tax Return Forms, W-2 Forms, 1099 Forms, and pay-stubs supporting the information on the Form 1040.
- three instances where only a Form 1040 was used, with no supporting documentation to verify the information reported on the Form 1040.
- 16 instances where pay-stubs, Social Security Administration or Social Security Administration Supplemental Security Income award letters, and W-2 Forms, etc. were used to document income, with no 1040 Forms.

We did note one instance in which income was incorrectly calculated using parental pay-stubs with no further income documentation or verification. It should also be noted, however, that this client would still have been eligible for benefits had the income verification and documentation been complete. Nevertheless, without proper verification and documentation of income, clients could receive benefits to which they might not be

entitled. In its response to the audit report, the CICRF Commission indicated it has instructed Fund staff to request IRS W-2 and 1099 Forms in addition to 1040 Forms when verifying and documenting income.

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INTRODUCTION

Background

The Catastrophic Illness in Children Relief Fund (CICRF) was established in 2000 to help families bear the excessive financial burdens associated with the care of children with high medical and related expenses. It provides last resort financial assistance for families in Massachusetts with children experiencing a medical condition requiring services that are not covered by a private insurer, state health care assistance, or any other financial source. The CICRF supports a wide variety of services, including medical equipment, medical services, hospital and physician services, medications, family support, and home and vehicle modifications that enable children to remain at home and a part of their community, rather than in residential or institutionalized care. Following a special review, experimental treatment or medications, assistive technology, alternative or complementary treatment, home health care, and other medically related services may be considered for reimbursement.

In addition to providing reimbursements to families, CICRF also offers non-financial assistance to families, including information, referrals, and technical assistance related to accessing other financial supports and needed resources/services.

The CICRF was established within the Department of Public Health (DPH) in accordance with Chapter 29, Section 2ZZ, of the Massachusetts General Laws (MGL), and administered by the CICRF Commission, which was established and is governed by Chapter 111K, Sections 1 through 9, of the General Laws. The CICRF Commission consists of 11 members, including designees of the Secretary of Health and Human Services, the Commissioner of Public Health, the Commissioner of Insurance, the State Treasurer, and seven public members (including a representative of the AFL-CIO and at least two providers of health care services to children in the Commonwealth of Massachusetts). The Commission is responsible for establishing the policies and procedures necessary for administration of the CICRF, including application to the fund, application review, determination of eligibility for services, and reimbursement.

The Department of Public Health is responsible for the general management and administration of the program, including maintaining confidential records for each child, determining each applicant's eligibility and amount of reimbursement, and preparing applications for review by the Commission.

The CICRF is financed by quarterly transfers from the Medical Security Trust Fund, if sufficient funding is available in accordance with MGL Chapter 151A, Section 15G(b). CICRF receives monies through an annual allotment of \$1 for each employee whose wages are counted as part of employer contributions for unemployment health insurance. The Office of the State Treasurer (OST) manages the Fund.

Since its inception, the CICRF has received some 1,443 applications (this includes re-applications) for some 1,223 children and has provided \$9,881,638 in reimbursement to approximately 760 families of catastrophically ill children with a wide array of medical conditions and diagnoses. These families come from across the state, from all income levels, and are largely insured either through private coverage and/or MassHealth. These families have been reimbursed for a variety of eligible expenses, including hospital and physician services, medication, medical equipment and supplies, travel and lodging, funeral expenses, special therapies, home modifications, and vehicle purchases and/or modifications.

The cost of caring for a chronically ill child can be overwhelming, even to a family with health insurance. High insurance premiums, deductibles, and co-payments, combined with medical and medically related expenses incurred because of coverage limitations and exclusions, can result in a serious drain of a family's financial resources. The bills acquired can send the family into extreme debt and cause severe emotional stress.

Audit Scope, Objectives, and Methodology

In accordance with Chapter 11, Section 12, of the General Laws, we have conducted an audit of the CICRF from its inception through June 21, 2008. The purpose of our audit was to determine whether the Commission was in compliance with Chapter 111K of the Massachusetts General Laws and funds are being expended for intended purposes. Additionally, we examined eligibility verification procedures and documents, identified the number of children served, and reviewed public awareness efforts by the Commission. Our review was conducted in accordance with applicable generally accepted government auditing standards for performance audits.

To meet our objectives, we reviewed the major activities performed by CICRF. We interviewed DPH personnel administering the CICRF, reviewed relevant laws and regulations, and prepared

flow charts on the major activities of the program. Testing was performed on program activities as we determined necessary.

On August 7, 2008, we met with a Co-Chairperson of the CICRF and staff from DPH and discussed the results of our review.

Except as noted in the Audit Results section of this report, we have determined that for the areas tested, CICRF's financial and eligibility records were accurate, up-to-date, and maintained in accordance with established criteria, and fund expenditures were appropriate, reasonable and in compliance with applicable laws, rules, and regulations.

AUDIT RESULTS

IMPROVEMENTS NEEDED OVER INCOME VERIFICATION AND DOCUMENTATION

We reviewed 25 recipient files to determine how the Department of Public Health (DPH) verifies and documents family income to determine financial eligibility for Catastrophic Illness in Children Relief Fund (CICRF) benefits, and noted several variations in how DPH verifies and documents income.

According to the CICRF's Eligibility Determination Policy, Section F, Financial Eligibility:

Family income must be verified through the submission of the tax returns, pay-stubs, a letter from all applicable employers, or other suitable means. If tax returns are available, they are the preferred means of income verification.

Family income is defined as earned and unearned income of the applicant and his/her parent(s) or guardian(s)....

Under the Internal Revenue Code, returns can be classified as either tax returns or information returns, although the term "tax return" is sometimes used to describe both kinds of returns in a broad sense.

"Tax returns," in a more narrow sense, are reports of tax liabilities and payments, often including financial information used to compute the tax. Information returns are reports used to transmit information about income, receipts, or other matters. For example, Forms W-2 and 1099 are used to report income that an employer, independent contractor, broker, or other party pays to a taxpayer. These types of documents enable the governing authority to make reasonably sure that taxpayers report income correctly.

The DPH staff responsible for the general management and administration of the CICRF program should be using these types of documents, in conjunction with tax returns and award letters, etc., to document and determine income eligibility.

Our review of the 25 client files noted the following:

- six instances where income was verified using a combination of Internal Revenue Service (IRS) 1040 Tax Return Forms, W-2 Forms, 1099 Forms, and pay-stubs supporting the information on the Form 1040.

- three instances where only a Form 1040 was used with no additional supporting documentation to verify the information reported on the Form 1040.
- 16 instances where pay-stubs, Social Security Administration or Social Security Administration Supplemental Security Income award letters, and W-2 Forms, etc. were used to document income with no 1040 Forms.

Our review of the 25 files indicated that although all files we reviewed were ultimately income-eligible, in one client file we reviewed, employee pay-stubs (parents) for three pay periods were used to document and ultimately determine eligibility. However, when computing annual income, DPH estimated the final incomes of both parents based upon the pay-stubs provided. Using this methodology, one parent's income for approximately five weeks was not included the calculation, and the other parent's income was estimated for the remainder of the year.

More specifically, income of the mother was misreported at \$33,050, when an additional document, a pay-stub for the pay period ending December 3, 2005, indicated the mother had earned \$35,434 as of that date. There was no further documentation to determine if the mother earned more beyond the December 3, 2005 date. For the father, three pay-stubs, for the pay period ending December 2, 2005, indicating that his pay appeared to be a fixed weekly amount, were used to project wages earned through the end of the year.

As a result, total income was incorrectly calculated for eligibility purposes. In this specific instance, although the income calculation was incorrect, the client would still have qualified for benefits. However, without fully documenting and verifying income, this type of error could result in a client receiving benefits to which he/she would not be entitled.

Recommendation

The CICRF Commission must ensure that the income documentation and verification process used by DPH is strengthened and made more consistent by requiring DPH to fully document and verify income.

Auditee's Response

In its response to the audit report, the CICRF Commission indicated it has instructed Fund staff to request W-2 and 1099 Forms in addition to 1040 Forms when documenting and verifying income.

APPENDIX I
Revenue and Expenditures
Catastrophic Illness in Children Relief Fund
Fiscal Years 2001 to 2008

	Fiscal Year 2001	Fiscal Year 2002	Fiscal Year 2003	Fiscal Year 2004	Fiscal Year 2005	Fiscal Year 2006	Fiscal Year 2007	Fiscal Year 2008*
Balance from Prior Fiscal Year	-	\$2,699,887.97	\$5,099,010.39	\$4,611,273.94	\$1,486,769.27	\$2,850,541.47	\$4,160,583.73	\$5,713,488.00
Revenue (including interest)	\$2,762,950.53	2,519,271.03	720,770.87	47,259.57	2,606,335.58	2,799,303.24	2,845,087.59	2,158,339.94
Expenditures	<u>(63,062.56)</u>	<u>(120,148.61)</u>	<u>(1,208,507.32)</u>	<u>(3,171,764.24)</u>	<u>(1,242,563.38)</u>	<u>(1,489,260.98)</u>	<u>(1,292,183.32)</u>	<u>(1,700,680.08)</u>
Balance Forwarded to Next Fiscal Year	<u>\$2,699,887.97</u>	<u>\$5,099,010.39</u>	<u>\$4,611,273.94</u>	<u>\$1,486,769.27</u>	<u>\$2,850,541.47</u>	<u>\$4,160,583.73</u>	<u>\$5,713,488.00</u>	<u>\$6,171,147.86</u>

**As of June 21, 2008*

Data provided by DPH

APPENDIX II
**Total Number of Families and
Total Amount Reimbursed to Families
Fiscal Years 2001 to 2008**

Fiscal Year	Number of Families Served	Total Reimbursed	Average Amount Reimbursed to Families
2001	2	\$ 63,062.56	\$31,530.78
2002	12	70,860.82	\$5,905.07
2003	122	1,144,334.52	\$9,379.79
2004	303	3,108,764.37	\$10,259.95
2005	186	1,219,532.00	\$6,556.62
2006	187	1,437,729.53	\$7,688.39
2007	139	1,180,503.28	\$8,492.83
2008 to date*	207	<u>1,656,851.71</u>	\$8,004.11
Total reimbursements, FY 01-FY 08 to date		<u>\$9,881,638.79</u>	

**Fiscal Year 2008 amount represents amount approved to date; some payments currently in process and not yet paid.*

NOTE: Some families are served in more than one fiscal year, so the total number of families served in the chart above totals more than 763, which represents the unduplicated number.

Data provided by DPH

APPENDIX III
**Total Reimbursements by Service Category
Fiscal Years 2001 through 2007**

Service Category	Amount	Percent
Family support and travel	\$2,860,536	34%
Vehicle purchase or modification	2,796,780	34%
Home modifications	1,161,045	14%
Health-enabling services and equipment	544,317	7%
Medical services (hospital, physicians, laboratory)	346,316	4%
Health insurance premiums	160,668	2%
Medication	132,443	2%
Funeral expenses	127,836	2%
Other services (therapies, home health care)	94,846	1%
	<u>\$8,224,787</u>	<u>100%</u>

Data provided by DPH

APPENDIX IV
**Other Program Statistics
Fiscal Years 2001 through 2007**

Total reimbursements, Fiscal Year 2001 – Fiscal Year 2007	\$8,224,786.08	
Minimum reimbursement	\$36.10	(This family has received additional payment in FY08)
Maximum reimbursement	\$59,683.00	
Average reimbursement	\$13,096.79	
Median (50 th percentile)	\$10,000.00	318 (of 628) families received below this amount
25 th percentile	\$5,337.50	157 (of 628) families received below this amount
75 th percentile	\$18,278.07	473 (of 628) families received below this amount

NOTE: The amount of reimbursements to families vary, with a minimum of \$36.10 and maximum of \$59,683. The above chart shows the average amount reimbursed to families over the course of seven years. It includes families who reapplied to the Fund and families who received financial assistance over several years.

Data provided by DPH