



STATE OF WASHINGTON

June 24, 2016

Honorable Troy Kelley
Washington State Auditor
P.O. Box 40021
Olympia, WA 98504-0021

Dear Auditor Kelley:

Thank you for the opportunity to review the State Auditor's Office (SAO) performance audit report, "Costs and Sustainability at the Washington Health Benefit Exchange."

While not audited for this report, the Health Care Authority (HCA) is a key partner of the Health Benefit Exchange (HBE). HBE has been a national leader in expanding health coverage to Washington state residents. HBE funding and expenditure information, both state and federal, has been regularly shared with the Legislature and the public.

HCA and HBE have worked closely with the federal Centers for Medicare and Medicaid Services (CMS) to ensure compliance with all requirements for the use of federal funds. We are pleased the SAO did not find any inappropriate or questionable expenditures. Rather, the findings address whether the correct share of costs was allocated to Medicaid and other federal grants.

States have many options for developing cost-allocation plans for Medicaid reimbursements. The methodology must be approved by CMS, and only costs documented in the plan can be reimbursed. HCA and HBE worked together to develop a cost-allocation plan that would best serve Washingtonians. That plan, and subsequent annual updates, were approved by CMS. To date, CMS has not questioned the appropriateness of costs charged to its federal grants.

SAO's methodology is different from the methodology CMS approved for our state. Under the approved CMS methodology, more federal grant funding is used for CMS-approved expenditures. If the methodology proposed by the SAO were implemented, \$90 million would retroactively shift to Medicaid. This would require up to \$44.6 million in General Fund-State funds as match for federal fund expenditures. Because we have CMS approval for the current methodology, we are uncertain whether costs incurred under the approved plan will or should be allocated differently.

We appreciate the input about the effects of different methodologies, and will consider it and other information when updating the next cost-allocation plan.

Sincerely,

Handwritten signature of Dorothy Frost Teeter in blue ink.

Dorothy Frost Teeter, Director
Health Care Authority

Handwritten signature of David Schumacher in black ink.

David Schumacher, Director
Office of Financial Management

Honorable Troy Kelley
June 24, 2016
Page 2 of 2

cc: David Postman, Chief of Staff, Office of the Governor
Kelly Wicker, Deputy Chief of Staff, Office of the Governor
Miguel Pérez-Gibson, Executive Director of Legislative Affairs, Office of the Governor
Matt Steuerwalt, Executive Director of Policy, Office of the Governor
Tracy Guerin, Deputy Director, Office of Financial Management
Wendy Korthuis-Smith, Director, Results Washington, Office of the Governor
Tammy Firkins, Performance Audit Liaison, Results Washington, Office of the Governor
MaryAnne Lindeblad, State Medicaid Director, Health Care Authority
Pam MacEwan, Chief Executive Officer, Washington Health Benefit Exchange