



August 28, 2013

**VIA FIRST CLASS MAIL**

The Honorable Sean Parnell  
Alaska Governor  
Office of the Governor  
State Capitol Building, Third Floor  
P.O. Box 110001  
Juneau, AK 99811

**RE: Potential Liability for Misuse of Federal Grant Funds**

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Dear Governor Parnell:

We write on behalf of Cause of Action, a non-profit, nonpartisan government accountability organization that uses investigative, legal and communications tools to educate the public on how government transparency and accountability protect economic opportunity for American taxpayers.

The purpose of this letter is to notify the State of Alaska, as well as entities, contractors, subgrantees, subrecipients and subcontractors who are utilized in furtherance of federally-

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<sup>1</sup> Please do not convey to Cause of Action any information you regard as confidential unless and until a formal lawyer-client relationship has been established, as any such information received will not be treated as confidential or privileged. Cause of Action provides this correspondence and the information contained herein solely as a convenience to Alaska's Office of the Governor, Office of the Lieutenant Governor, Office of the Attorney General, and any other Alaska government offices or related affiliates.

facilitated exchanges,<sup>2</sup> regarding potential liabilities that may apply if any of these entities or their agents misuse the taxpayer funds they receive.

On December 12, 2012, you informed Federal officials that Alaska would default to a federally-facilitated health insurance exchange.<sup>3</sup> In an effort to market and promote the Patient Protection and Affordable Care Act (PPACA), the U.S. Department of Health and Human Services (HHS) has authorized navigator, assister, application counselor, and other consumer outreach programs (collectively, "Enrollment Assistance Programs") with the stated goal of helping citizens enroll in exchange health plans.<sup>4</sup> On August 14, 2013, thirteen Attorneys General (AG) sent a letter to HHS Secretary Kathleen Sebelius identifying the lack of programmatic safeguards necessary to protect consumers' private healthcare data in these Enrollment Assistance Programs.<sup>5</sup> The AG's letter specifically noted that consumers would "hand over all their individual data to a minimally screened and virtually unaccountable 'counselor'" making consumer privacy a "catch-as-catch-can," and that "without more protections, this is a privacy disaster waiting to happen."<sup>6</sup> These concerns are heightened following a recent report from the HHS Office of Inspector General, which notes that the Centers for Medicare and Medicaid Services (CMS) has missed multiple deadlines for analyzing security risks in the Federal Data Services Hub.<sup>7</sup> Alaska did not request any Federal Grant funding to establish a State exchange.<sup>8</sup> Nevertheless, HHS recently announced that Alaska entities will receive \$599,918 in federal funding for the Navigator program<sup>9</sup> in furtherance of the anticipated October 1, 2013 federally-facilitated health exchange start date.<sup>10</sup> Entities in your State also

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<sup>2</sup> This would include, but not be limited to, any future Federal Grants for Navigators, in-person assisters, certified application counselors, and any Federal funding relating to the UX2014 program and any application programming interface with the Federal Data Services Hub.

<sup>3</sup> Press Release, Office of Governor Sean Parnell, Alaska Won't Fund Health Insurance Exchange (July 17, 2012), available at <http://www.gov.state.ak.us/parnell/press-room/full-press-release.html?pr=6195>; see also The Henry J. Kaiser Family Foundation, *State Exchange Profiles: Alaska* (Jan. 3, 2013), available at <http://kff.org/health-reform/state-profile/state-exchange-profiles-alaska/>. Alaska allocated \$200,000 in State funds to conduct background research and analysis.

<sup>4</sup> 45 C.F.R. § 155.205 (2012) (Consumer assistance tools and programs of an Exchange); 45 C.F.R. § 155.210 (2012) (Navigator program standards).

<sup>5</sup> Letter from Patrick Morrissey, Att'y Gen., State of W. Va., *et al.*, to Kathleen Sebelius, Sec'y, U.S. Dep't of Health & Human Servs. (Aug. 14, 2013) at 2, 5, available at

[https://www.oag.state.tx.us/newspubs/releases/2013/Letter\\_to\\_HHS\\_re\\_Data\\_Privacy\\_final\\_8\\_14\\_13\\_.pdf](https://www.oag.state.tx.us/newspubs/releases/2013/Letter_to_HHS_re_Data_Privacy_final_8_14_13_.pdf).

<sup>6</sup> *Id.*, at 2, 5.

<sup>7</sup> Letter from Sen. Mitch McConnell, Ranking Member, U.S. Sen., to Marilyn Tavenner, Adm'r, Ctrs. for Medicare & Medicaid Servs. (Aug. 12, 2013), available at <http://cnsnews.com/sites/default/files/documents/McConnell%20letter%20to%20CMS.pdf>.

<sup>8</sup> Annie L. Mach and C. Stephen Redhead, *Status of Federal Funding for State Implementation of Health Insurance Exchanges*, Congressional Research Service (June 19, 2013) at 6, available at <http://www.fas.org/sgp/crs/misc/R43066.pdf>.

<sup>9</sup> Under 45 C.F.R. § 155.210, each exchange must establish a Navigator program to assist people with healthcare enrollment. State agencies may serve as Navigators. 45 C.F.R. § 155.210(c). CMS announced the anticipated Navigator grant recipients on August 15, 2013. Ctrs. for Medicare & Medicaid Servs., Ctr. for Consumer Info. & Ins. Oversight, *Navigator Grant Recipients*, <http://www.cms.gov/CCIIO/Programs-and-Initiatives/Health-Insurance-Marketplaces/Downloads/navigator-list-8-15-2013.pdf> (last visited Aug. 19, 2013).

<sup>10</sup> See U.S. Dep't of Health & Human Servs., Ctrs. for Medicare & Medicaid Servs., Ctr. for Consumer Info. & Ins. Oversight, *Cooperative Agreement to Support Navigators in Federally-facilitated and State Partnership Exchanges*,

received 24 awards totaling \$1,801,561 for health center outreach and enrollment assistance under the PPACA.<sup>11</sup> In light of these allocated funds provided by HHS, Cause of Action writes to identify potential liability pitfalls Alaska may face when an individual or entity connected to a federally-facilitated health insurance exchange makes fraudulent claims.

### **Compliance Risks Associated with the Terms of the Funding Opportunity Announcement**

Any entity receiving Grant Funds through the Center for Consumer Information and Insurance Oversight (CCIIO) or HHS's Health Resources and Services Administration (HRSA) is restricted in its use of the funds. Neither the Navigator Grant Funds nor the HRSA Funds may be used to cover pre-award costs, to match other Federal funds, to carry out services that are the responsibility of the Exchange, or to influence the enactment of legislation, appropriations, regulation, administrative action, or Executive order proposed or pending before any Federal, State or local legislature or legislative body.<sup>12</sup> The numerous restrictions HHS and CCIIO have placed on the use of such Grant Funds may subject Alaska's contractors, subcontractors, subgrantees and subrecipients to a significant risk of liability under the False Claims Act, as well as subject the State to sanctions imposed by the Centers for Medicare and Medicaid Services and/or CCIIO, such as restrictions on the use of funds and/or termination of the awards.<sup>13</sup> In the event material misrepresentations are made, criminal charges and fines may also be imposed under 18 U.S.C. § 1001 (2012). If HHS fails to specifically articulate applicable privacy and security requirements for monitoring Enrollment Assistance Programs, there may be considerable uncertainty as to who could be liable if an Enrollment Assistance Program harms a consumer.<sup>14</sup>

### **Compliance with the Byrd Anti-Lobbying Amendment**

Section 1352 of Title 31 of the United States Code, the Byrd Anti-Lobbying Amendment, expressly prohibits recipients "of a Federal contract, grant, loan, or cooperative agreement" from using appropriated funds to "influenc[e] or attempt[] to influence an officer or employee of any agency, a Member of Congress, an officer or employee of Congress, or an employee of a Member of Congress" in connection with specified "Federal action[s]."<sup>15</sup> In response to a Senate inquiry concerning HHS Grant Funding under the Centers for Disease Control and Prevention's Communities Putting Prevention to Work program, the U.S. Department of Justice stated "[t]he Department is committed to investigating all credible allegations of illegal lobbying activity,

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1, 9 (Apr. 9, 2013) [hereinafter *Navigator Grant Funding Announcement*], available at <http://www.cms.gov/CCIIO/Resources/Funding-Opportunities/Downloads/2013-navigator-foa-4-9-2013.pdf>.

<sup>11</sup> U.S. Dep't of Health & Human Servs., Health Res. & Servs. Admin., Alaska: Health Center Outreach & Enrollment Assistance [hereinafter HRSA Grant(s)], available at <http://www.hrsa.gov/about/news/2013tables/outreachandenrollment/ak.html> (last visited August 27, 2013).

<sup>12</sup> This list is not exhaustive. See also *Navigator Grant Funding Announcement*, *supra* note 10, at 27; HRSA Grants, *supra* note 11.

<sup>13</sup> U.S. GOV'T ACCOUNTABILITY OFFICE, GAO-13-543, PATIENT PROTECTION AND AFFORDABLE CARE ACT—HHS'S PROCESS FOR AWARDING AND OVERSEEING EXCHANGE AND RATE REVIEW GRANTS TO STATES (May 31, 2013), available at <http://www.gao.gov/assets/660/654994.pdf>.

<sup>14</sup> See Letter from Patrick Morrissey, *supra* note 5, at 6.

<sup>15</sup> 31 U.S.C. § 1352 (2012).

which strikes at the heart of the democratic process.”<sup>16</sup> To ensure that contractors, subcontractors, subgrantees, and subrecipients comply with Federal law, Alaska bears responsibility for preventing any appropriated Federal Funds from being used for any form of lobbying—direct or grassroots—regarding pending legislation.<sup>17</sup> However, prospective Alaska recipients of Navigator Grants “may lobby at their own expense if they can segregate[ F]ederal funds from other financial resources used for that purpose.”<sup>18</sup>

### **Compliance with Audit Requirements of OMB Circular A-133**

Any recipient or subrecipient of \$500,000 or more in Federal awards during a single fiscal year must comply with the audit requirements of the Office of Management and Budget’s (OMB) Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*.<sup>19</sup> The Federal award recipient(s) must identify all Federal awards it receives and expends, establish and maintain internal controls to ensure it is managing the Federal award programs in compliance with all applicable laws, prepare regular financial statements, ensure audits are conducted at the required intervals, and take corrective action on any audit findings.<sup>20</sup> Any Federal award recipient who contracts with a for-profit subrecipient is further responsible for the for-profit subrecipient’s compliance.<sup>21</sup> Such contract must describe the applicable compliance requirements and the for-profit subrecipient’s compliance obligations.<sup>22</sup>

The Federal award recipient must select an auditor to conduct the audit.<sup>23</sup> Upon assessing the Federal award recipient’s financial statements, internal controls, and compliance, the auditor will issue a report describing its findings.<sup>24</sup> The Federal award recipient is then responsible “for follow-up and corrective action on all audit findings,” and must prepare a corrective action plan to address any problems identified by the audit.<sup>25</sup> Finally, the Federal award recipient must submit to the OMB’s Federal clearinghouse a reporting package that includes its financial statements, schedule of expenditures of Federal awards, corrective action plan, and the auditor’s reports.<sup>26</sup> If Alaska receives at least \$500,000 in Grant Funds, including Navigator Grants, it must adhere to these requirements. Failure to comply with OMB Circular

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<sup>16</sup> Letter from Peter J. Kadzik, Principal Deputy Assistant Att’y Gen., U.S. Dep’t of Justice, to Sen. Patrick Leahy, Chairman, S. Comm. on the Judiciary (May 7, 2013), 1, 57, available at <http://www.judiciary.senate.gov/resources/transcripts/upload/061212QFRs-Holder.pdf>.

<sup>17</sup> 18 U.S.C. § 1913 (2012).

<sup>18</sup> *Navigator Grant Funding Announcement*, *supra* note 10, at 27.

<sup>19</sup> The Single Audit Act, as amended, applies to non-Federal governmental units, including subrecipients, which receive Federal awards of \$500,000 or more. See 31 U.S.C. § 7502 (2012); OFFICE OF MGMT. & BUDGET, EXEC. OFFICE OF THE PRESIDENT, OMB CIRCULAR No. A-133, AUDITS OF STATES, LOCAL GOVERNMENTS, AND NON-PROFIT ORGANIZATIONS at Subpart B, §§ 200(a), 210(a) (June 26, 2007) [hereinafter OMB CIRCULAR A-133], available at [http://www.whitehouse.gov/sites/default/files/omb/assets/a133/a133\\_revised\\_2007.pdf](http://www.whitehouse.gov/sites/default/files/omb/assets/a133/a133_revised_2007.pdf).

<sup>20</sup> OMB CIRCULAR A-133, *supra* note 19, § 300.

<sup>21</sup> *Id.* § 210(e).

<sup>22</sup> *Id.*

<sup>23</sup> *Id.* §§ 105, 200, 500.

<sup>24</sup> *Id.* §§ 500, 505, 510.

<sup>25</sup> *Id.* § 315.

<sup>26</sup> 31 U.S.C. § 7502(h) (2012); OMB CIRCULAR A-133, *supra* note 19, § 320(d).

A-133 may result in suspension of Federal funding and may affect eligibility for future funding.<sup>27</sup>

### **Compliance with Cost Principles of OMB Circular A-87**

State and local entities that receive Federal funding must allocate their expenditures in accordance with OMB Circular A-87, *Costs Principles for State, Local, and Indian Tribal Governments*.<sup>28</sup> This includes adequately documenting all costs associated with administering the Grant Funds.<sup>29</sup> Recipients must submit a Certificate of Cost Allocation Plan<sup>30</sup> and a Certificate of Indirect Costs,<sup>31</sup> certifying they are in conformance with this OMB Circular.<sup>32</sup> If the recipient submits a false certification, it may be subject for treble damage liability under the False Claims Act. Also, any Federal award recipient that contracts with a commercial organization is subject to the cost principles and procedures of 48 C.F.R. part 31.2. Like OMB Circular A-87, these regulations dictate how a Federal award recipient is allowed to expend funds when contracting with a commercial organization. Specifically, any State that has received Federal Grant Funds to establish an exchange—even if it is currently operated as a federally-facilitated-exchange state—may be subject to this regulation if it has contracted with commercial organizations.

Because Alaska's federally-facilitated exchange is operated exclusively by the Federal Government, Alaska is not subject to this OMB Circular. However, if Alaska elects to transition to a State-run or partnership exchange and receives Federal funding for the project, it would be subject to this OMB Circular.<sup>33</sup> Furthermore, because Alaska entities are set to receive Federal Navigator Grant Funds the State may be subject to the cost allocation principles and procedures of 48 C.F.R. part 31.2. Violation of these requirements may also subject Alaska to penalties under 48 C.F.R. § 52.242-3.

### **False Claims Act, Corporate Governance, and Internal Best Practices**

Providing false information to the Federal government is strictly illegal under the Federal False Claims Act.<sup>34</sup> All persons are forbidden from knowingly or willfully falsifying or concealing a material fact, making materially false or fraudulent representations, or using any false writings or documents known to be materially fictitious.<sup>35</sup> Federal law similarly bars anyone from knowingly presenting false claims to any Federal government representative.<sup>36</sup> The

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<sup>27</sup> 31 U.S.C. §§ 7501 (2012) *et seq.*

<sup>28</sup> OFFICE OF MGMT. & BUDGET, EXEC. OFFICE OF THE PRESIDENT, OMB CIRCULAR NO. A-87, COST PRINCIPLES FOR STATE, LOCAL, AND INDIAN TRIBAL GOVERNMENTS at 5 (Attachment A, ¶ A(3) (Application)) (May 10, 2004) [hereinafter OMB CIRCULAR A-87], available at [http://www.whitehouse.gov/omb/circulars\\_a087\\_2004](http://www.whitehouse.gov/omb/circulars_a087_2004).

<sup>29</sup> *Id.* at 9 (Attachment A, ¶ C(1) (Basic Guidelines)).

<sup>30</sup> *Id.* at 45 (Attachment C).

<sup>31</sup> *Id.* at 56 (Attachment E).

<sup>32</sup> *Id.* at 12 (Attachment A).

<sup>33</sup> *Id.* at 5 (Attachment A, ¶ A(3) (Application)).

<sup>34</sup> 31 U.S.C. §§ 3729- 33 (2012).

<sup>35</sup> 18 U.S.C. § 1001 (2012).

<sup>36</sup> 18 U.S.C. § 287 (2012).

Fraud Enforcement and Recovery Act of 2009 (FERA)<sup>37</sup> substantively amended the False Claims Act in the following areas: (1) FERA expanded the scope of the False Claims Act in re-defining a “claim”;<sup>38</sup> (2) FERA eliminated the False Claim Act’s “presentation” requirements;<sup>39</sup> (3) the False Claim Act’s intent requirement was eliminated, such that all that is necessary for liability to attach is that a statement has a “natural tendency to influence, or is capable of influencing the payment or receipt of money or property.”<sup>40</sup> The False Claim Act’s conspiracy provisions have also been expanded to include conspiracies to violate other provisions of the False Claims Act.<sup>41</sup> The FERA Amendments also establish an express “materiality” requirement,<sup>42</sup> as well as “reverse false claims” and overpayment “retention” liability.<sup>43</sup> Additionally, a State’s subcontractors may face relator claims under the False Claims Act if the subcontractor misuses Federal funds. Liability for violations under the False Claims Act starts at \$5,500 per occurrence, plus treble damages.<sup>44</sup> Alaska should also evaluate its State False Claims Act law(s), if applicable.

States must also institute procedures to promote compliance with the financial integrity provisions of section 1313 of the PPACA, including requirements related to accounting, reporting, auditing, cooperating with investigators, and adhering to the False Claims Act.<sup>45</sup> A comprehensive strategy to combat fraud will hedge against False Claims Act liabilities and ensure maximal compliance with other laws and regulations.

Absent a comprehensive strategy to combat fraud as required by PPACA § 1313, Alaska may face liability of its own and is at significant risk of reimbursing subcontractors for unlawful activity who may also face relator claims under the False Claims Act if Federal funds are misused.<sup>46</sup> Given the significant taxpayer funds involved and the wide-ranging functions and responsibilities of Alaska as a federally-facilitated-exchange, it is increasingly plausible that health insurers and subcontractors may misrepresent their credentials and that there will be ample opportunity for vigilant whistleblowers to file False Claims Act *qui tam* suits in response.

In conclusion, you may wish to evaluate whether Alaska, its contractors, subcontractors, subgrantees and subrecipients have the oversight capability to ensure that Federal Funds are used in a transparent, accountable, and legally compliant manner. You must promptly refer to the HHS Office of Inspector General any credible evidence that a principal, employee, agent, contractor, subrecipient, subcontractor or other person or entity has submitted a false claim under

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<sup>37</sup> Pub. L. 111-21, S. 386, 123 Stat. 1616 (2009).

<sup>38</sup> 31 U.S.C. § 3729(b)(2) (2012).

<sup>39</sup> *Id.*

<sup>40</sup> *Id.* at § 3729(b)(4).

<sup>41</sup> *Id.* at § 3729(b)(4); §§ 3729(a)(1)(C) and (b)(1-4).

<sup>42</sup> *Id.* at § 3729(a)(1)(C); *see supra*, note 44.

<sup>43</sup> 31 U.S.C. § 3729(a)(7); § 3729(b)(3); 73 Fed. Reg. 67,064, 67,091 (Nov. 12, 2008) (amending 48 C.F.R. § 9-406-2(b)(1)(vi)(C); 42 U.S.C. 1320a-7b(a)(3).

<sup>44</sup> 31 U.S.C. § 3729(a) (2012).

<sup>45</sup> U.S. Dep’t of Health & Human Servs., Ctrs. for Medicare & Medicaid Servs., Ctr. for Consumer Info. & Ins. Oversight, *Cooperative Agreement to Support the Establishment of the Affordable Care Act’s Health Insurance Exchanges*, 1, 52-53 (Nov. 30, 2012), available at <http://www.cms.gov/CCIIO/Resources/Funding-Opportunities/Downloads/amended-spring-2012-establishment-foa.pdf>.


<sup>46</sup> 31 U.S.C. §§ 3729-33 (2012).

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the False Claims Act, or has committed a criminal or civil violation pertaining to fraud, conflict of interest, bribery, gratuity, or similar misconduct involving those funds. The HHS Office of Inspector General can be reached at <http://www.oig.hhs.gov/fraud/hotline>.

If you have any questions regarding this letter, please contact me at 202-499-4232.

Sincerely,

  
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DANIEL Z. EPSTEIN  
EXECUTIVE DIRECTOR

cc: Hon. Patrick Leahy, Chairman, Senate Committee on the Judiciary  
Hon. Charles Grassley, Ranking Member, Senate Committee on the Judiciary  
Hon. Orrin Hatch, Ranking Member, Senate Committee on Finance  
Hon. Tom Harkin, Chairman, Senate Committee on Health, Education, Labor and Pensions  
Hon. Lamar Alexander, Ranking Member, Senate Committee on Health, Education, Labor, and Pensions  
Hon. Johnny Isakson, Vice Chairman, Senate Select Committee on Ethics  
Hon. Darrell Issa, Chairman, House Committee on Oversight and Government Reform  
Hon. Fred Upton, Chairman, House Committee on Energy and Commerce  
Hon. Elijah Cummings, Ranking Member, House Committee on Oversight and Government Reform  
Hon. Roy Blunt, Ranking Member, Senate Subcommittee on Agriculture, Rural Development, Food & Drug Administration, Senate Committee on Appropriations  
Hon. Michael Enzi, Ranking Member, Senate Subcommittee on Children and Families, Senate Committee on Health, Education, Labor and Pensions  
Health and Aging, Senate Committee on Health Education, Labor & Pensions  
Hon. Kelly Ayotte, Senate Committee on Homeland Security and Governmental Affairs  
Hon. Mark Begich, Chairman, Senate Subcommittee on Emergency Management, Intergovernmental Relations, and the District of Columbia, Senate Committee on Homeland Security and Governmental Affairs  
Hon. Lisa Murkowski, Senate Subcommittee on Primary Health and Aging, Senate Committee on Health, Education, Labor, and Pensions  
Hon. Don Young  
Hon. Kathleen Sebelius, Secretary, U.S. Department of Health and Human Services  
Hon. Daniel Levinson, Inspector General, U.S. Department of Health and Human Services  
Hon. Peter Kadzik, Principal Deputy Assistant Attorney General, Office of Legislative Affairs, U.S. Department of Justice  
Hon. Michael Geraghty, Attorney General, State of Alaska  
Hon. Mead Treadwell, Lieutenant Governor, State of Alaska  
Hon. Bret Kolb, Director, Division of Insurance, State of Alaska