

September 19, 2013

VIA FIRST CLASS MAIL

The Honorable Sam Brownback Office of the Governor Kansas State Capitol 300 SW 10th Ave., Ste. 241S Topeka, KS 66612-1590

RE: Potential Liability for Misuse of Federal Grant Funds

The material provided herein is general information and should not be construed as legal advice. Receipt, review, and action taken independent of this correspondence is neither intended to create, nor does create, an attorney-client relationship between the recipient(s) of this correspondence and/or the Kansas Office of the Governor, on the one hand, and Cause of Action, on the other. None of the information contained herein constitutes legal advice and must not be construed or substituted for the advice of qualified counsel within the appropriate jurisdiction with whom you may choose to consult regarding these or related matters. \(\text{\text{}}

Dear Governor Brownback:

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 Kansas, as well as entities, contractors, subgrantees, subrecipients and subcontractors who are utilized in furtherance of state-federal alternate arrangement exchanges, regarding potential liabilities that may apply if any of these entities or their agents misuse the taxpayer funds they receive.

¹ 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 Kansas's Office of the Governor, Office of the Attorney General, Office of the Secretary of State, and any other Kansas government offices or related affiliates.

² This would include any future Federal Grants for Navigators, in-person assisters, certified application counselors, exchange enrollment facilitators, and any Federal funding relating to Kansas's maintenance costs for hardware and

On November 9, 2012, you announced that Kansas intended to default to a federallyfacilitated exchange.³ On March 8, 2013, Kansas received approval from the Center for Consumer Information and Insurance Oversight (CCIIO) to perform plan management activities for the exchange. The Federal government will retain control over all other exchange functions.⁵ In an effort to market and promote the Patient Protection and Affordable Care Act (PPACA), the U.S. Department of Health and Humans 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.⁶ On August 14, 2013, thirteen Attorneys General (AG) sent a letter to HHS Secretary Sebelius identifying the lack of programmatic safeguards necessary to protect consumers' private healthcare data in these Enrollment Assistance Programs. 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."8 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.9

Kansas received an \$1,000,000 State Planning Grant on September 30, 2010.¹⁰ State Planning Grants were issued to assist states with initial planning activities related to implementing a state exchange, ¹¹ including, but not limited to, assisting Kansas in addressing all

software management, security and database administration, the System for Electronic Rates and Form Filings (SERFF), Enroll UX2014 program and any application programming interface with the Federal Data Services Hub.

Brent D. Wistrom, *Brownback: Kansas won't partner with federal government on health insurance exchange*, The Wichita Eagle, Kansas.com (Nov. 8, 2012), *available at* http://www.kansas.com/2012/11/08/2561344/brownback-kansas-wont-partner.html; *see also* The Henry J. Kaiser Family Foundation, *State Exchange Profiles: Kansas* (March 21, 2013), *available at* http://kff.org/health-reform/state-profile/state-exchange-profiles-kansas/.

Letter from Dir. Gary Cohen to Ins. Comm'r Sandy Praeger (March 8, 2013), *available at* http://wayback.archive-it.org/2744/20130312195210/http://cciio.cms.gov/Archive/Technical-Implementation-Letters/ks-pm-letter-3-8-2013.pdf.

⁶ 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).

 $https://www.oag.state.tx.us/newspubs/releases/2013/Letter_to_HHS_re_Data_Privacy__final_8_14_13_.pdf. \\ {\it 8} \ Id., at 2, 5.$

http://cnsnews.com/sites/default/files/documents/McConnell%20letter%20to%20CMS.pdf.

¹⁰ U.S. Dep't of Health & Human Servs., Ctrs. for Medicare & Medicaid Servs., Ctr. for Consumer Info. & Ins. Oversight, Kansas Affordable Insurance Exchange Grants Awards List, [hereinafter Kansas Grants List], available at http://www.cms.gov/cciio/Resources/Marketplace-Grants/ks.html (last visited Sept. 13, 2013).

¹¹ U.S. Dep't of Health & Human Servs., Ctrs. for Medicare & Medicaid Servs., Ctr. for Consumer Info. & Ins. Oversight, State Planning & Establishment Grants for the Affordable Care Act's Exchanges (July 29, 2010) [hereinafter State Planning Grant Funding Announcement], available at

http://www.cms.gov/CCIIO/Resources/Funding-Opportunities/Downloads/exchange_planning_grant_foa.pdf; see also Kansas Grants List, supra note 10, at 2.

⁵ *Id*.

Letter from Patrick Morrisey, 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

⁹ 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*

major financial factors impacting the viability of an exchange, supporting an actuarial analysis for a viable set of plans and benefits, identifying necessary Information Technology (IT) systems, and laying the foundation for the development of a fully functioning health insurance exchange in Kansas. Kansas also received a \$31,500,000 Early Innovator Grant to develop IT infrastructure, which it later returned in full on or about August 9, 2011. Kansas entities also received \$886,085 in Navigator Grants through CCIIO, and fourteen awards totaling \$1,633,928 from HHS's Health Resources and Services Administration (HRSA) for health center outreach and enrollment assistance under the PPACA. In light of these allocated funds provided by HHS, Cause of Action writes to identify potential liability pitfalls Kansas may face when an individual or entity connected to a state-federal alternate arrangement exchange makes fraudulent claims.

Compliance Risks Associated with the Funding Opportunity Terms

Any entity receiving Grant Funds through CCIIO is restricted in its use of the funds. As CCIIO's Funding Opportunity Announcement for State Planning provides, Grant Funds may not be used, for example, toward any other Federal program requirements, to cover certain executive compensation, or to cover costs associated with providing direct services to individuals. States receiving CCIIO Grant Funds are also prohibited from using such funds to improve information technology systems or processes solely related to Medicaid or the Children's Health Insurance Program, or any other state or Federal program's eligibility for such programs.

The State of Kansas and entities within the state that are awarded Navigator Grants and/or HRSA PPACA enrollment Grants will also be subject to other Federal restrictions. Neither the Navigator, HRSA Grant Funds nor the State Planning 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. The numerous restrictions HHS and CCIIO have placed on the use of Grant Funds may subject Kansas and exchange contractors, subcontractors, subgrantees and subrecipients to a significant risk of liability under the False Claims Act, and subject the State of Kansas to sanctions imposed by the Centers for Medicare and Medicaid Services and/or

¹² See Kansas Grants List, supra note 10 (receiving \$1,000,000 on Sept. 30, 2010 (Planning)).

¹³ Jason Millman and Kate Nocera, *Kansas returns \$31.5M exchange grant*, Politico Pro (Aug. 9, 2011), *available at* http://www.politico.com/news/stories/0811/60967.html.

¹⁴ U.S. Dep't of Health & Human Servs., Ctrs. For Medicare & Medicaid Servs., Ctr. For Consumer Info. & Ins. Oversight, *Navigator Grant Recipients* (Aug. 15, 2013), 1, 10-11, *available at* http://www.cms.gov/CCIIO/Programs-and-Initiatives/Health-Insurance-Marketplaces/Downloads/navigator-list-8-15-2013.pdf; *see also* Appendix A.

U.S. Dep't of Health & Human Servs., Health Res. & Servs. Admin., Kansas: Health Center Outreach & Enrollment Assistance, *available at* http://www.hrsa.gov/about/news/2013tables/outreachandenrollment/ks.html (last visited Sept. 13, 2013); *see also* Appendix A.

¹⁶ State Planning Grant Funding Announcement, supra note 11, at 12, 17.

¹⁷ *Id.* at 12, 17; *see also* 2 C.F.R. pt. 225 (2013) regarding cost allocations.

This list is not exhaustive. See also State Planning Grant Funding Announcement, supra note 11, at 12, 17.

CCIIO, such as restrictions on the use of funds and/or termination of the awards.¹⁹ 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.²⁰

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]." 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, which strikes at the heart of the democratic process." To ensure that contractors, subcontractors, subgrantees, and subrecipients comply with Federal law, Kansas bears responsibility for preventing any appropriated Federal Funds from being used for any form of lobbying—direct or grassroots—regarding pending legislation. 23

Compliance with OMB Circular A-133's Audit Requirements

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*.²⁴ 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.²⁵ Any Federal award recipient who contracts with a for-profit subrecipient is further responsible for the

¹⁹ 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.

²⁰ See Letter from Patrick Morrisey, supra note 7, at 6.

²¹ 31 U.S.C. § 1352 (2012).

²² 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.

²³ 18 U.S.C. § 1913 (2012).

²⁴ 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. ²⁵ OMB CIRCULAR A-133, *supra* note 24, § 300.

for-profit subrecipient's compliance.²⁶ Such contract must describe the applicable compliance requirements and the for-profit subrecipient's compliance obligations.²⁷

The Federal award recipient must select an auditor to conduct the audit. ²⁸ Upon assessing the Federal award recipient's financial statements, internal controls, and compliance, the auditor will issue a report describing its findings. ²⁹ 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. ³⁰ 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. ³¹ Because Kansas received at least \$500,000 in Grant Funds, it must adhere to these requirements. Failure to comply with OMB Circular A-133 may result in suspension of Federal funding and may affect eligibility for future funding. ³²

Compliance with OMB Circular A-87's Cost Principles

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.³³ This includes adequately documenting all costs associated with administering the Grant Funds.³⁴ Recipients must submit a Certificate of Cost Allocation Plan³⁵ and a Certificate of Indirect Costs,³⁶ certifying they are in conformance with this OMB Circular.³⁷ 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 may be subject to this regulation if it has contracted with commercial organizations.

Kansas's state-federal alternate arrangement exchange is subject to this OMB Circular to the extent the State Planning Grant Funds have been utilized to establish the exchange. If Kansas elects to transition to a state exchange, all Federal Grant Funds in furtherance of the

²⁸ *Id.* §§ 105, 200, 500.

²⁶ *Id.* § 210(e).

²⁷ *Id*.

²⁹ *Id.* §§ 500, 505, 510.

³⁰ *Id.* § 315.

³¹ 31 U.S.C. § 7502(h) (2012); OMB CIRCULAR A-133, *supra* note 24, § 320(d).

³² 31 U.S.C. §§ 7501 (2012) et seq.

³³ 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.

³⁴ OMB Circular A-87, *supra* note 33, at 9 (Attachment A, ¶ C(1) (Basic Guidelines)).

³⁵ Id. at 45 (Attachment C).

³⁶ *Id*.at 56 (Attachment E).

³⁷ Id. at 12 (Attachment A).

exchange will be subject to OMB Circular A-87. Furthermore, because Kansas received (and has not returned) Federal Grant Funds under a State Planning Grant, 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 subject the State of Kansas 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. 38 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.³⁹ Federal law similarly bars anyone from knowingly presenting false claims to any Federal government representative. 40 The Fraud Enforcement and Recovery Act of 2009 (FERA)⁴¹ 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"; 42 (2) FERA eliminated the False Claims Act's "presentation" requirements; 43 (3) the False Claims Act's intent requirement was eliminated, such that all that is necessary for liability to attach is that such statement has a "natural tendency to influence, or is capable of influencing the payment or receipt of money or property."44 The False Claims Act's conspiracy provisions have also been expanded to include conspiracies to violate other provisions of the False Claims Act. 45 The FERA amendments also establish an express "materiality" requirement, 46 as well as "reverse false claims" and overpayment "retention" liability. 47 Additionally, Kansas'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. 48 Kansas 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. 49 A comprehensive strategy to combat fraud will hedge against False Claims Act liabilities and ensure maximal compliance with other laws and regulations.

³⁸ 31 U.S.C. §§ 3729- 33 (2012).

³⁹ 18 U.S.C. § 1001 (2012).

^{40 18} U.S.C. § 287 (2012). 41 Pub. L. 111-21, S. 386, 123 Stat. 1616 (2009).

⁴² 31 U.S.C. § 3729(b)(2) (2012).

⁴⁴ *Id.* at § 3729(b)(4).

⁴⁵ *Id.* at § 3729(b)(4); §§ 3729(a)(1)(C) and (b)(1-4).

⁴⁶ Id. at § 3729(a)(1)(C); see supra, note 44.

⁴⁷ 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).

⁴⁸ 31 U.S.C. § 3729(a) (2012).

⁴⁹ State Planning Grant Funding Announcement, supra note 11, at 4, 15-16.

Absent a comprehensive strategy to combat fraud as required by PPACA §1313, Kansas may face liability of its own and be subject to significant risk of reimbursing subcontractors for unlawful activity who may also face relator claims under the False Claims Act if Federal Funds are misused. Given the significant taxpayer funds involved and the wide-ranging functions and responsibilities of Kansas as a state-federal alternate arrangement 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 Kansas, 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 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.hss.gov/fraud/hotline.

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

Sincerely,

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

⁵⁰ 31 U.S.C. §§ 3729-33 (2012).

Hon. Kelly Ayotte, Senate Committee on Homeland Security and Governmental Affairs

Hon. Jerry Moran

Hon. Pat Roberts, Ranking Member, Senate Committee on Rules and Administration

Hon. Kevin Yoder

Hon. Mike Pompeo

Hon. Tim Huelskamp

Hon. Lynn Jenkins

Kathleen Sebelius, Secretary, U.S. Department of Health and Human Services

Daniel Levinson, Inspector General, U.S. Department of Health and Human Services

Peter Kadzik, Principal Deputy Assistant Attorney General, Office of Legislative Affairs,

U.S. Department of Justice

Hon. Derek Schmidt, Attorney General, State of Kansas

Hon. Kris Kobach, Secretary of State, State of Kansas

Hon. Sandy Praeger, Insurance Commissioner, State of Kansas

Appendix A

I. Kansas Navigator Grant Recipients.

Three awards totaling \$886,085:

• Advanced Patient Advocacy, LLC

Grant amount: \$195,556

• Ascension Health

Grant amount: \$165,683

• Kansas Association for the Medically Underserved

Grant amount: \$524,846

II. Kansas HRSA Grant Recipients:

Fourteen awards totaling \$1,633,928:

	Health Center	City	Award Amount
	CENTER FOR HEALTH AND WELLNESS	Wichita	\$73,355
	COMMUNITY HEALTH CENTER OF SOUTHEAST KANSAS, INC.	Pittsburg	\$215,024
99 1997 — 1994 1994 1994 1995 1995 1997 1997 1997 1997 1997 1997	COUNTY OF SHAWNEE	Topeka	\$89,943
	FIRST CARE CLINIC, INC.	Hays	\$82,331
	FLINT HILLS COMMUNITY HEALTH CENTER, INC.	Emporia	\$102,615
	GRACEMED HEALTH CLINIC, INC.	Wichita	\$216,443
	HEALTH MINISTRIES HARVEY COUNTY	Newton	\$79,482
	HEALTH PARTNERSHIP CLINIC OF JOHNSON COUNTY, INC.	Overland Park	\$109,281
	HEARTLAND MEDICAL CLINIC, INC.	Lawrence	\$66,040
errenennen errenen errenen errene	HUNTER HEALTH CLINIC, INC.	Wichita	\$213,198
	KONZA PRAIRIE COMMUNITY HEALTH CENTER, INC.	Junction City	\$94,816
	PRAIRIESTAR HEALTH CENTER, INC.	Hutchinson	\$106,069

SALINA HEALTH EDUCATION FOUNDATION	Salina	\$88,040
UNITED METHODIST WESTERN KANSAS MEXICAN-AMERICAN MINISTRIES, INC.	Garden City	\$97,291