

Audit Report

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## **Maryland Health Insurance Plan**

February 2016

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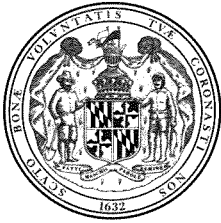
**OFFICE OF LEGISLATIVE AUDITS**  
DEPARTMENT OF LEGISLATIVE SERVICES  
MARYLAND GENERAL ASSEMBLY

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DEPARTMENT OF LEGISLATIVE SERVICES  
OFFICE OF LEGISLATIVE AUDITS  
MARYLAND GENERAL ASSEMBLY

Warren G. Deschenaux  
Executive Director

February 16, 2016

Thomas J. Barnickel III, CPA  
Legislative Auditor

Senator Guy J. Guzzone, Co-Chair, Joint Audit Committee  
Delegate C. William Frick, Co-Chair, Joint Audit Committee  
Members of Joint Audit Committee  
Annapolis, Maryland

Ladies and Gentlemen:

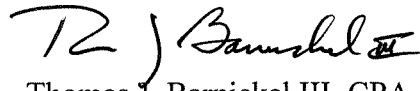
We have conducted a fiscal compliance audit of the Maryland Health Insurance Plan (MHIP) for the period beginning June 6, 2011 and ending January 12, 2015. MHIP is an independent unit of State government primarily responsible for providing comprehensive health benefits to medically uninsurable residents of the State and for subsidizing the out-of-pocket costs of certain enrollees in Medicare Part D prescription drug coverage.

Chapter 159, Laws of Maryland 2013 closed MHIP medical plans to new enrollment as of December 31, 2013 because of the implementation of the Maryland Health Benefit Exchange. Coverage for all enrollees ended as of December 31, 2014, and claim payments for services incurred prior to the termination of coverage continued to be processed in calendar year 2015. MHIP anticipates that legislation will be introduced in the 2016 legislative session to terminate MHIP as a unit of State government effective July 1, 2016.

Our audit disclosed that an independent review of the claims management system used by its Administrative Service Organization (ASO) to provide various services, such as determining client eligibility and paying healthcare claims, had not been obtained. Although MHIP had attempted to obtain such a review at its own cost, it was unable to obtain the cooperation of the ASO. We also noted that MHIP did not verify the propriety of bank withdrawals made by the ASO from an account the two parties owned jointly; these withdrawals were made to cover the costs of claims paid.

MHIP's response to this audit is included as an appendix to this report. We wish to acknowledge the cooperation extended to us during the course of this audit by MHIP.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "TJ Barnickel III", with a stylized flourish at the end.

Thomas J. Barnickel III, CPA  
Legislative Auditor

## **Background Information**

### **Agency Responsibilities and Organizational Change**

The Maryland Health Insurance Plan (MHIP) is an independent unit of State government. MHIP is governed by a Board of Directors, and operates certain medical plans as well as the Senior Prescription Drug Assistance Program (SPDAP). MHIP's goal is to provide access to affordable, comprehensive health benefits to medically uninsurable residents of the State. The medical plans are primarily specially funded by assessments on patient revenues of acute care hospitals in the State and certain nonprofit health service plans, as well as by premiums paid by certain MHIP enrollees. SPDAP provides subsidies to reduce the out-of-pocket costs for low and moderate income Medicare recipients enrolled in the Medicare Part D prescription drug coverage. SPDAP is specially funded by a nonprofit health service plan entity (in lieu of its payment of premium taxes) as provided for in State law. All special funds are non-lapsing and MHIP's financial activity is subject to an annual audit by an independent accounting firm. According to the audited financial statements, MHIP's fiscal year 2014 receipts totaled \$226 million and disbursements totaled \$231 million.

Chapter 159, Laws of Maryland 2013, closed MHIP medical plans to new enrollment as of December 31, 2013 as a result of the implementation of the Maryland Health Benefit Exchange (MHBE). MHIP, in consultation with MHBE, continued coverage on its medical plans for existing enrollees to reduce the impact on enrollees transitioning to the private market. Coverage for those enrollees was terminated December 31, 2014. Claim payments for services incurred prior to that date continued to be processed in calendar year 2015. SPDAP had also been scheduled to terminate as of December 31, 2014; however, Chapter 84, Laws of Maryland 2014, extended the end date for SPDAP to December 31, 2016. MHIP anticipates that legislation will be introduced in the 2016 legislative session to transfer oversight of SPDAP to the Department of Health and Mental Hygiene and to terminate MHIP as a unit of State government effective July 1, 2016.

### **Financial Statement Audits**

MHIP engaged an independent accounting firm to perform audits of its statutory financial statements for the fiscal years ended June 30, 2012, 2013, 2014, and 2015. In the related audit reports, the firm stated that MHIP's financial statements presented fairly, in all material respects, its admitted assets, liabilities, and net assets as of June 30 and the results of its operations and cash flows for the

years then ended on the basis of accounting practices prescribed or permitted by the Maryland Insurance Administration.

## **Status of Findings From Preceding Audit Report**

Our audit included a review to determine the status of the three findings contained in our preceding audit report dated April 25, 2012. We determined that MHIP satisfactorily addressed those findings.

## **Findings and Recommendations**

### **Administrative Service Organization**

#### **Background**

The Maryland Health Insurance Plan (MHIP) contracted with an Administrative Service Organization (ASO) to provide benefit management services, including member enrollment, premium billing and collection, and the payment of provider claims for its medical plans. Although the contract term ended December 31, 2014, the ASO is obligated to provide certain administrative services after that date, including, for example, processing outstanding claims and addressing any related appeals or grievances. At the time of our audit, these services were still being performed. Because all medical plan coverage has terminated (as explained on page 3 of this report), no subsequent contracts for benefit management services have been executed. According to MHIP's records, during fiscal year 2015, the ASO paid medical claims totaling approximately \$66.7 million.

#### **Finding 1**

**Although MHIP attempted to obtain an independent review of the ASO's claims management system to ensure that the related internal controls were designed and operating effectively, it was unable to obtain the cooperation of the ASO.**

#### **Analysis**

Although MHIP had attempted to obtain an independent review of the automated claims management system at its own cost, it was unable to obtain the cooperation of the ASO. The American Institute of Certified Public Accountants has issued guidance concerning examinations of a service organization's automated systems. Based on this guidance, service providers may contract for an independent review of controls, resulting in an independent auditor's report referred to as a service organization controls (SOC) report. The purpose of such a review is to provide

assurances to all of the ASO's customers, including MHIP, concerning the design and effectiveness of internal controls related to its processing of transactions for clients. Without such a review, the system's operational integrity could not be ensured and the system could be vulnerable to a variety of exposures, such as third-party access to critical system data. In this regard, the system contains demographic information for individuals, including name, address, and date of birth, as well as sensitive personal health information, including medical diagnosis codes and prescribed medications.

MHIP management advised us that it made several attempts to have the recommended review performed, but the ASO has refused to obtain an independent review of the claims management system on its own or allow MHIP to independently obtain such a review. Although the ASO is not contractually obligated to obtain a review, certain critical transactions, including claim payments, continue to be processed on the ASO's system, and sensitive personal information relating to MHIP enrollees remains with the ASO. Consequently, we continue to believe that MHIP must take steps to obtain the aforementioned assurances regarding the ASO's system, particularly regarding the security of sensitive personal information. While the contract with the ASO requires the return or destruction of confidential information within 60 days of the contract termination, MHIP management advised us they do not have an estimate of when the information will be recovered since the ASO is continuing to process outstanding claims from calendar year 2014.

#### **Recommendation 1**

**We recommend that MHIP identify the remaining risks pertaining to the ASO's claims management system and take the necessary action to address those risks, including ensuring the security of sensitive personal information maintained by the ASO.**

#### **Finding 2**

**MHIP did not ensure that all bank withdrawals made by the ASO for claims paid were valid.**

#### **Analysis**

MHIP did not ensure that all bank withdrawals made by the ASO as reimbursement for claims paid were valid by reconciling these withdrawals to claims payment documentation. MHIP maintained a joint bank account with the ASO for processing claims payment activity. The ASO periodically invoiced MHIP for estimated future claim payment needs, MHIP deposited its invoice payments into the joint account, and the ASO periodically withdrew funds from

the account to cover the paid claims. As of September 30, 2015, the balance of the account was approximately \$224,000.

MHIP management advised us that it had requested from the ASO documentation specifically supporting withdrawals made, but that such documentation has not been provided. Although MHIP received monthly reports from the ASO of claims paid, these reports normally differed from amounts withdrawn by the ASO for the same periods, and MHIP did not investigate and resolve these differences. For example, according to reports MHIP received from the ASO for fiscal year 2015, claims paid during the year totaled \$66,718,026; however, withdrawals made by the ASO for the same period totaled \$68,980,031 — a difference of \$2,262,005. MHIP further advised that such variances were caused by timing differences between when claims were paid and withdrawals made; however, MHIP could not support this assertion. Because of the lack of documentation for the individual withdrawals, MHIP will need to reconcile the aggregate of withdrawals made and claims paid since the beginning of its contract with the ASO to verify the propriety of all withdrawals made.

#### **Recommendation 2**

**We recommend that MHIP ensure the propriety of bank withdrawals made by the ASO by reconciling all withdrawals made by the ASO with claims paid, and investigate and resolve any differences noted.**

## **Audit Scope, Objectives, and Methodology**

We have conducted a fiscal compliance audit of the Maryland Health Insurance Plan (MHIP) for the period beginning June 6, 2011 and ending January 12, 2015. The audit was conducted in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

As prescribed by the State Government Article, Section 2-1221 of the Annotated Code of Maryland, the objectives of this audit were to examine MHIP's financial transactions, records, and internal control, and to evaluate its compliance with applicable State laws, rules, and regulations.

In planning and conducting our audit, we focused on the major financial-related areas of operations based on assessments of significance and risk. The areas



addressed by the audit included MHIP's monitoring of the administrative service organization contracted to administer MHIP's medical plans, and contract procurement and disbursements. We also determined the status of the findings included in our preceding audit report.

MHIP engaged an independent accounting firm to perform audits of its statutory financial statements for the fiscal years ended June 30, 2012, 2013, 2014, and 2015. In the related audit reports, the firm stated that MHIP's financial statements presented fairly, in all material respects, its admitted assets, liabilities and net assets as of June 30 and the results of its operations and cash flows for the years then ended on the basis of accounting practices prescribed or permitted by the Maryland Insurance Administration. We have relied on certain work of the independent accounting firm to provide audit coverage of enrollee insurance premiums and provider claim payments.

To accomplish our audit objectives, our audit procedures included inquiries of appropriate personnel, inspections of documents and records, observations of MHIP's operations, and tests of transactions. Generally, transactions were selected for testing based on auditor judgment, which primarily considers risk. Unless otherwise specifically indicated, neither statistical nor non-statistical audit sampling was used to select the transactions tested. Therefore, the results of the tests cannot be used to project those results to the entire population from which the test items were selected. We also performed other auditing procedures that we considered necessary to achieve our objectives. The reliability of data used in this report for background or informational purposes was not assessed.

MHIP's management is responsible for establishing and maintaining effective internal control. Internal control is a process designed to provide reasonable assurance that objectives pertaining to the reliability of financial records, effectiveness and efficiency of operations including safeguarding of assets, and compliance with applicable laws, rules, and regulations are achieved.

Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that conditions may change or compliance with policies and procedures may deteriorate.

Our reports are designed to assist the Maryland General Assembly in exercising its legislative oversight function and to provide constructive recommendations for improving State operations. As a result, our reports generally do not address activities we reviewed that are functioning properly.

This report includes findings relating to conditions that we consider to be significant deficiencies in the design or operation of internal control that could adversely affect MHIP's ability to maintain reliable financial records, operate effectively and efficiently, and/or comply with applicable laws, rules, and regulations. Our audit did not disclose any significant instances of noncompliance with applicable laws, rules, or regulations. Other less significant findings were communicated to MHIP that did not warrant inclusion in this report.

MHIP's response to our findings and recommendations is included as an appendix to this report. As prescribed in the State Government Article, Section 2-1224 of the Annotated Code of Maryland, we will advise MHIP regarding the results of our review of its response.

## APPENDIX

# MARYLAND HEALTH INSURANCE PLAN



### *Board of Directors*

**SCOTT AFZAL**  
*Minority Business Owner*

**DAVID R. BRINKLEY**  
*Secretary*  
*Department of Budget & Management*

**BRADLEY HERRING, PH.D.**  
*Consumer Member*

**DEBORA KUCHKA-CRAIG**  
*Hospital Member*

**GREGORY MARTINO**  
*Insurance Carrier Member*

**BETHANY OLDFIELD**  
*Insurance Producer Member*

**DONNA KINZER**  
*Executive Director*  
*Health Services Cost Review Commission*

**VAN T. MITCHELL**  
*Secretary*  
*Department of Health and Mental Hygiene*

**ISAZETTA SPIKES**  
*Consumer Member*

**BEN STEFFEN**  
*Executive Director*  
*Maryland Health Care Commission*

201 E. Baltimore Street  
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410-576-2055

February 10, 2016

Thomas Barnickel, Legislative Auditor  
Department of Legislative Services  
Office of Legislative Audits  
Maryland General Assembly

Dear Mr. Barnickel,

First, I would like to thank the audit staff that performed our audit. They were thorough, professional, courteous, and efficient in performing the audit. We at the MHIP welcome constructive criticism and suggestions and findings that are in the best interest of the citizens of the State of Maryland, and that is the purpose of an audit.

Below are the responses to the OLA audit of the Maryland Health Insurance Plan, Agency D79.

Please feel free to contact me to further discuss any issues.

### **Finding 1**

**Although MHIP attempted to obtain an independent review of the ASO's claims management system to ensure that the related internal controls were designed and operating effectively, it was unable to obtain the cooperation of the ASO.**

### **Recommendation 1**

**We recommend that MHIP identify the remaining risks pertaining to the ASO's claims management system and take the necessary action to address those risks, including ensuring the security of sensitive personal information maintained by the ASO.**

### **FINDING 1 – MHIP RESPONSE**

- 1) As mentioned in OLA's narrative, MHIP has made several attempts to obtain the SOC 2 audit. Not mentioned in the OLA report is the extensive amount of work, effort, and time that MHIP staff spent in pursuing the ASO to obtain



the audit. The ASO eventually agreed to obtain the SOC2 audit after the first Maryland Health Benefit Exchange (MHBE) open enrollment period (October 15, 2013 – March 31, 2014). During the open enrollment period MHIP staff obtained Board approval to issue an RFP, placed the RFP on e-Marketplace, reviewed and evaluated responses, selected an auditing firm, received Board Approval for the awarding of the auditing contract, and entered into a contract to conduct the audit. After the open enrollment period ended, the ASO notified MHIP that they would not obtain the audit. MHIP exercised the right to cancel the audit contract before any expenses were incurred.

MHIP is appreciative and fully concurs with OLA's recommendation to identify the remaining risks and take the necessary action to mitigate those risks. MHIP has been and continues to be in communication with the ASO. The ASO's initial response to MHIP was that "systems are continually evaluated, reviewed and audited by both internal and external auditors". MHIP is currently researching the ASO's data deletion and archival policies to determine if these can be utilized to ensure the security of the sensitive personal information maintained by the ASO.

#### **Finding 2**

**MHIP did not ensure that all bank withdrawals made by the ASO for claims paid were valid.**

#### **Recommendation 2**

**We recommend that MHIP ensure the propriety of bank withdrawals made by the ASO by reconciling all withdrawals made by the ASO with claims paid, and investigate and resolve any differences noted.**

#### **FINDING 2 – MHIP RESPONSE**

2) MHIP attempted to get the ASO to provide the detail for the reimbursement withdraws during and after the 2011 OLA audit. The ASO stated that the process would be too cumbersome and could not be done. Because we were unable to get the detail, the ASO added a monthly reconciliation in the ASO's "Reporting Package". The same reconciliation is also in the monthly claims file that is provided by the ASO. It is on the "Summary" tab. It is detailed below:

- (+) Beginning Balance of the Unfunded MHIP Claims
- (+) MHIP Claims paid by the ASO for the Month
- (-) MHIP Payments to reimburse ASO
- (=) Ending Balance of Unfunded MHIP Claims

To comply with OLA's recommendation, subsequent to OLA's audit MHIP Staff completed a spreadsheet with data from the inception (July 2007) of the ASO's contract through and including December 2015. This spreadsheet performs the same calculation as listed above. The results of the spreadsheet are that every month is equal to the "Ending Balance of Unfunded MHIP claims" including, most importantly, the ending balance as of December 31, 2015.

Thank you again!

Sincerely Yours,

A handwritten signature in black ink, appearing to read "Anthony Armiger", followed by a long horizontal line extending to the right.

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Maryland Health Insurance Plan  
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Anthony.armiger@maryland.gov

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