



Department of Legislative Services
Office of Legislative Audits

Maryland Health Benefit Exchange Fiscal Compliance Audit

Report Dated October 2, 2015



Department of Legislative Services Office of Legislative Audits

Audit Overview

- The Maryland Health Benefit Exchange (MHBE) was created by the Maryland Health Benefit Exchange Act of 2011 as a public corporation and independent unit of state government to implement certain federal legislation. The primary purpose of MHBE is to reduce the number of Maryland residents who have no health insurance.
 - The Act mandated a 9-member board be responsible for governing and managing MHBE. Board members include the Secretary of the Department of Health and Mental Hygiene (DHMH), the Maryland Insurance Commissioner, the Executive Director of Maryland Health Care Commission, and 6 persons appointed by the Governor.
 - MHBE is exempt from a number of State rules and regulations, including procurement and inventory control. The Board is responsible for establishing various policies and procedures governing MHBE operations.
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Audit Overview (continued)

- MHBE worked with DHMH, the Department of Human Resources, and the Maryland Insurance Administration to establish Maryland's state-based health insurance exchange. The original exchange system launched October 1, 2013 and after a troubled launch was replaced with the State of Connecticut's system retrofitted for Maryland needs. The replacement exchange system was implemented in November 2014.
 - MHBE's expenditures from July 1, 2011 to June 30, 2014 totaled approximately \$264.3 million (State funds \$29.0 million and federal funds \$235.3million). Expenditures during the period related primarily to Information Technology development, outreach and consumer assistance, and agency operations necessary to implement the state-based health insurance exchange.
 - This is OLA's first audit of MHBE (for the period beginning June 1, 2011 and ending July 23, 2014) and the audit report included 10 findings.
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MHBE Performance Audit

- The fiscal compliance audit was conducted concurrently with an Office of Legislative Audits performance audit of the troubled launch of the original Exchange System at the direction of the Maryland General Assembly's Joint Audit Committee to address concerns of the Joint Oversight Committee on the Maryland Health Benefit Exchange.
 - The audit report on the results of the performance audit has not yet been issued due to concerns raised by the Office of the Attorney General.
 - Although during the fiscal compliance audit we reviewed and tested MHBE contracts for procurement and monitoring, we specifically excluded 13 contract awards totaling \$209.0 million that pertained exclusively to the development of the original Exchange System. Those results are not included in these findings or presentation.
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Key Fiscal Compliance Audit Issues

- MHBE did not comply with its procurement policy when purchasing certain goods and services under the sole source and emergency procurement methods.
- MHBE made certain payments for contractual services without routinely obtaining or evidencing its review of documentation supporting vendor billings.
- MHBE did not verify that 6 entities receiving grants totaling \$23.4 million during FY 2014 had spent the funds for appropriate purposes.
- Several security and control issues were noted regarding MHBE's information systems.



Federal Audit of MHBE

- Federal Audit on Establishment Grant Funds
 - A federal Department of Health and Human Services Inspector General's audit report issued in March 2015, concluded that DMHM, which processes grant allocation and reimbursements for MHBE, did not allocate \$28.4 million in costs to establishment grants and Medicaid funding in accordance with federal requirements and its cost allocation plan.
 - The audit recommended MHBE refund the \$28.4 million, however with federal approval, MHBE would be allowed to claim a portion of costs through the Medicaid program.
 - MHBE disagreed with the finding. As of our report date, the issue, including MHBE reimbursement to the federal government was unresolved. Depending upon how it is resolved, additional State funds may be needed to cover past costs.
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Procurement

- MHBE did not comply with its procurement policy when purchasing certain goods and services under the emergency and sole source methods. Also, MHBE did not always retain relevant procurement documentation (**Finding 1**).
 - For two sole source contracts, totaling \$5.9 million, the sole source justification did not substantiate that only one vendor was available to provide services as required by MHBE policy.
 - Another contract totaling \$1.6 million and a task order under another contract for \$1.2 million included five and four-year terms, respectively, even though they were made under the emergency procurement method, which MHBE policy states shall not be used to meet long-term requirements.
 - For all 5 contracts tested, sufficient documentation relating to the MHBE Board's approval process was lacking and MHBE could not provide certain relevant documentation such as documentation to support negotiation of pricing and contract terms.
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Disbursements and Grants

- MHBE made certain payments for contractual services without routinely obtaining or evidencing its review of documentation supporting vendor billings (**Finding 2**). For example, our test of 15 payments totaling \$18.1 million to 5 vendors between November 2013 and August 2014 found MHBE did not receive adequate documentation, such as time records, to support 8 payments made to 3 vendors totaling \$8.2 million.

- MHBE had not verified the propriety of grant expenditures for 6 entities related to the Connector Program, which totaled \$23.4 million in FY 2014 (\$9 million in general funds and \$14.4 million in federal funds) (**Finding 3**). Although the entities submitted quarterly expenditure reports, MHBE did not have a process in place to verify the propriety of expenditures being reported. Specifically, detailed support for expenditures was not obtained and reviewed.



Information Systems (IS) Security & Control

- MHBE inappropriately stored sensitive personally identifiable information (PII) and federal tax information (FTI) in clear text (**Finding 7**). For example, as of April 28, 2015, the replacement Exchange System database contained sensitive PII and FTI for 591,858 individuals in clear text. This included, but was not limited to, full name, date of birth, social security number, and household income.
- Administrative access to the MHBE network was excessive and access to critical replacement Exchange System files was not properly restricted (**Finding 8**). For example, many users could perform critical functions that were not needed to perform their job duties, including 55 accounts assigned to 50 unique users that were improperly classified as domain administrators. Also, access to certain enrollment and report files, containing unencrypted sensitive PII, was not properly restricted.



IS Security & Control (continued)

- MHBE lacked assurance as to the security over critical data on servers hosted by contractors (Finding 9).
 - MHBE lacked assurance that the original Exchange System servers still in the custody of the parent company of the primary contractor were properly secured. These servers hosted enrollment data containing sensitive PII and FTI.
 - The contract between MHBE and the contractor responsible for hosting the network and servers for the replacement Exchange System did not provide adequate assurances that the network and servers were properly secured. The contract did not require that the independent security review be structured to provide proper assurances with respect to controls addressing for example, security, availability, and confidentiality.
 - The MHBE network was not properly secured at the hosting datacenter for the replacement Exchange System (Finding 10) as required by the State's *Information Security Policy*.
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Other Findings

- Federal fund reimbursements requests were not made timely resulting in a loss of interest income of \$199,000 (Finding 4).
 - MHBE did not maintain adequate inventory records nor properly account for its equipment (Finding 5).
 - An equipment inventory control account was not maintained as required by MHBE policy.
 - MHBE could not provide complete detailed records for its equipment at locations other than its headquarters and could not provide a total value of all equipment owned. We reviewed four major contracts that included purchase of approximately \$48.4 million in equipment by MHBE.
 - MHBE did not establish a process to ensure hardware purchases from April 2012 to December 2013 totaling \$33 million were actually provided by the vendor prior to payment.
 - The MHBE Board was found to have violated the State's Open Meetings Act (Finding 6).
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Conclusions

MHBE should

- ensure its procurement policies and requirements are followed for sole source and emergency purchases and retain relevant documentation;
- obtain and review documentation to support vendor billings for labor hours;
- establish procedures to verify grant expenditures were proper;
- take the recommended actions to improve security and controls over its information system;
- ensure future requests for federal fund reimbursements are made in a timely manner;
- establish procedures and properly maintain its equipment records, to account for and control its equipment inventory; and
- ensure future compliance with the Open Meetings Act.