D.C. HEALTH BENEFIT EXCHANGE AUTHORITY

2014 PROGRAMMATIC AUDIT REPORT

BERT SMITH & Co.

Certified Public Accountants and Management Consultants

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BERT SMITH & CO.

May 27, 2015

D.C. Health Benefit Exchange Authority
Washington, D.C.

This report presents the results of our work conducted to address the programmatic audit objectives relative to the D.C. Health Benefit Exchange Authority (the Exchange) Programmatic audit for the fiscal year October 1, 2013 to September 30, 2014. Our work was performed during the period of March 2, 2015 through May 27, 2015 and our results are as of May 27, 2015.

Report on Compliance with 45 CFR: Part 155

We have audited the D.C. Health Benefit Exchange Authority's compliance with the types of compliance requirements described in the 45 CFR: Part 155 for the fiscal year ended September 30, 2014.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable under and pursuant to 45 CFR: Part 155.

Auditor's Responsibility

Our responsibility is to express an opinion on the Exchange's compliance with 45 CFR: Part 155 subparts B, C, E, F, G, H, K and M. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the program occurred. An audit includes examining, on a test basis, evidence about the Exchange's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance with 45 CFR: Part 155. However, our audit does not provide a legal determination of the D.C. Health Benefit Exchange Authority's compliance.

Opinion on Compliance with 45 CFR: Part 155

In our opinion, the Exchange complied, in all material respects, with the types of compliance requirements referred to above for the fiscal year ended September 30, 2014.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be recorded in accordance with Center for Medicare & Medicaid Services (CMS) requirements and which are described in the accompanying audit findings and recommendation section of this report as findings 2014-001 and 2014-002. Our opinion on the Exchange's compliance with the requirements described in 45 CFR: Part 155 is not modified with respect to these matters.

The Exchange's response to the noncompliance findings is identified in the accompanying corrective action plan. The Exchange's response was not subjected to the auditing procedures applied in the audit of compliance and accordingly we express no opinion on the response.

This programmatic audit did not constitute an audit of any portion of the Exchange's fiscal year 2014 financial statements in accordance with *Government Auditing Standards*. Additionally, we were not engaged to, and did not, audit or render an opinion on the Exchange's internal controls over financial reporting or over financial management systems.

Sincerely,

Bert Smith & Co.

EXECUTIVE SUMMARY

I. BACKGROUND

In 2010, the federal Patient Protection and Affordable Care Act (ACA) was enacted to reform the health care system in the United States. A key requirement of the Affordable Care Act is that all Americans obtain public or private health insurance or pay a penalty (42 U.S.C. 18091 and 26 U.S.C. 5000A). To accomplish this requirement, the Act authorizes federal funding to: (1) establish health insurance exchanges, (2) allow states to expand Medicaid eligibility, and (3) provide federal tax credits to individuals who are ineligible for Medicaid but have incomes between 100 and 400 percent of federal poverty guidelines.

As one of the key components of the ACA, each state is required to make available a health insurance exchange for individuals and small businesses to compare and purchase health insurance plans. These exchanges, also known as "marketplaces" were to be established and managed by individual states, by the federal government for a state, or through a federal-state partnership. Effective March 3, 2012 and pursuant to Section 3 of the Health Benefit Exchange Authority Establishment Act of 2011, the District of Columbia established its own state-based health insurance marketplace to meet the needs of District residents and small businesses.

II. PURPOSE OF AUDIT

The purpose of this programmatic audit was to determine the D.C. Health Benefit Exchange Authority's compliance with the rules, regulations and guidelines under 45 CFR: Part 155 governing the programmatic requirements set forth by the Centers for Medicare & Medicaid Services (CMS).

III. SCOPE OF AUDIT

The scope of the programmatic audit covers the Exchange's compliance with the requirements under 45 CFR: Part 155 subparts B, C, E, F, G, H, K and M for the period October 1, 2013 through September 30, 2014.

We did not audit the requirements under (1) Subpart D-Exchange Functions in the Individual Market: Eligibility Determinations for Exchange Participation and Insurance Affordability Programs; and (2) Subpart E-Standard operating procedures and processes for making accurate enrollments in compliance with Federal regulations. **These sections were "carved out" by the Exchange since these procedures were addressed by the U.S. Department of Health and Human Services (HHS) OIG eligibility and enrollment verification audit.**

IV. AUDITING STANDARDS

We conducted this programmatic audit 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 upon our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

V. METHODOLOGY

The methodology was used to determine the Exchange's compliance with the programmatic audit requirements. Specific procedures included the following:

- Conducted meetings and interviews with Exchange personnel, contractors and personnel from other District agencies to gain an insight and understanding of the policies, procedures and types of supporting documents required for our testing. Personnel interviewed included:
  - General Counsel and Chief Policy Advisor
  - Associate General Counsel
  - Associate General Counsel and Policy Advisor
  - Director of Marketplace Innovation, Policy and Operations
  - DIMS/CATCH Project Manager
  - Technical Project Manager
  - Chief Financial Officer
- We reviewed the following key documents, regulations and requirements, and policies and procedures:
  - District of Columbia Blueprint Package
  - Bylaws for the District of Columbia Health Benefit Exchange Authority
  - Health Benefit Exchange Authority Establishment Act of 2011
  - Centers for Medicare and Medicaid Services Frequently Asked Questions about the Annual Independent External Audit of State-based marketplaces dated June 18, 2014
  - 45 CFR: Part 155
  - Applicable sections of the Affordable Care Act of 2010
  - D.C. Health Link Assister's Resource Guide
  - D.C. HBX Uniform Carrier Agreement
  - Memorandum of Agreement Between the Health Benefit Exchange Authority and the Department of Health Care Finance
  - Memorandum of Agreement Between the Health Benefit Exchange Authority and the Department of Human Services Economic Security Administration for Eligibility Determination Services
  - Memorandum of Agreement Between the Health Benefit Exchange Authority and the D.C. Office of Administrative Hearing for Eligibility Appeal Hearings
  - D.C. Conflicts of Interest Restrictions D.C. Official Code § 31-3171-10
  - D.C. Ethic Act – D.C. Official Code § 1-1162.03
  - 6B DCMR Section 1800 – Applicability and Basic Employee Obligation
  - Privacy and Securities Policies for Exchange Operations
  - D.C. Primary Care Associates – Conflict of Interest Plan and Disclosures
  - Navigator Grant Agreement
  - Training Modules and Examinations
- Reviewed governance documents.
- Reviewed legislation relating to the Exchange.
- Reviewed approved budget.
- Reviewed oversight monitoring policies and procedures.
- Reviewed processes and procedures designed to prevent improper enrollment.
- Reviewed supporting documentation over subpart requirements.
- Tested the compliance and effectiveness of internal controls over the subpart requirements.
- Reviewed policies and procedures for certification of qualified health plans and notices of appeals.
- Reviewed standards designed to prevent and mitigate conflicts of interests, financial or otherwise.

- Reviewed policies and procedures over navigator program standards.
- Reviewed evidence and implementations for the existence of consumer assistance tools.
- Tested oversight and program integrity standards.
- Tested privacy and security standards.
- Tested training standards.

VI. NATURE OF CONFIDENTIAL OR SENSITIVE INFORMATION OMMITTED

We have deemed that the contents of this report are not considered confidential or sensitive and as such, the report is presented in its entirety.

AUDIT FINDINGS AND RECOMMENDATIONS

I. SUMMARY OF RESULTS AND FINDINGS

The results and findings are as follows:

45 CFR: Part 155	Compliance/Internal control	Results
Subpart B – General Standards Related to the Establishment of an Exchange	1. Approval of a State Exchange.	The Exchange is in compliance with this requirement.
	2. Entities eligible to carryout Exchange functions.	The Exchange is in compliance with this requirement.
	3. Non-interference with Federal law and non-discrimination standards.	The Exchange is in compliance with this requirement.
	4. Stakeholders consultation.	The Exchange is in compliance with this requirement.
	5. Financial support for continued operations.	The Exchange is in compliance with this requirement.
	6. Additional required benefits.	The Exchange is in compliance with this requirement.
Subpart C – General Operations	1. Privacy and security of navigators.	The Exchange is in compliance with this requirement.
	2. Processes and procedures for addressing complaints.	The Exchange is in compliance with this requirement.
	3. Processes and procedures for providing assistance in culturally and linguistically appropriate manner.	The Exchange is in compliance with this requirement.
	4. Training standards.	The Exchange is in compliance with this requirement.
	5. Breaches of security or privacy by a navigator grantee.	The Exchange is in compliance with this requirement.
	6. Standards designed to prevent and mitigate any conflicts of interest, financial or otherwise.	The Exchange is in compliance with this requirement.
	7. Confirmation that assures funding for navigator grants does not come from Federal funds.	The Exchange is not in compliance with this requirement. **Finding # 2014-001:** We noted that the Exchange incorrectly charged the navigator funding to the federal awards.
	8. Privacy and security safeguards.	The Exchange is in compliance with this requirement.
	9. Call center information provided in plain language and in a manner that is accessible to individuals with disabilities and individuals with limited English proficiency.	The Exchange is in compliance with this requirement.
Subpart E – Enrollments	1. Management review/internal controls associated with the prevention of improper enrollment transactions, including processes to ensure that enrollees are receiving. Accurate advance premium tax credits (APTC's), cost sharing reductions (CSR's), and premiums (and for correction of any discrepancies).	The Exchange is in compliance with this requirement.

45 CFR: Part 155	Compliance/Internal control	Results
	2. Compliance with Centers for Medicaid and Medicare Services (CMS)-issued Standard Companion Guides (e.g. ASC X12 820 and 834).	The Exchange is in compliance with this requirement.
	3. Processes to reconcile enrollment information with qualified health plan (QHP) issuers and CMS no less than on a monthly basis.	The Exchange is not in compliance with this requirement. **Finding # 2014-002:** The Exchange did not provide evidence of the QHP's acknowledgement record for 8 items out of 77 tested.
	4. Data and records maintenance related to enrollments.	The Exchange is in compliance with this requirement.
Subpart F – Appeals of Eligibility Determinations	1. Process for appeals for eligibility determinations.	The Exchange is in compliance with this requirement.
Subpart G – Exemptions	1. Standard operating procedures and processes for eligibility exemptions.	The Exchange is in compliance with this requirement.
Subpart H – SHOP	1. Standard operating procedures and processes for the functions of a SHOP.	The Exchange is in compliance with this requirement.
Subpart K – Certification of QHP's	1. Process for recertification of Qualified Health Plans (QHPs).	The Exchange is in compliance with this requirement.
	2. Process for decertification of QHPs.	The Exchange is in compliance with this requirement.
	3. Policies and procedures for certification of qualified health plans.	The Exchange is in compliance with this requirement.
Subpart M – Oversight and Program Integrity Standards	1. Policies and procedures for the safe guard and retention of enrollment records.	The Exchange is in compliance with this requirement.

II. FINDINGS AND RECOMMENDATIONS

Based upon the results of our testing, we have outlined the findings below:

2014-001 Condition: The Exchange funded the navigator program with federal funds during fiscal year 2014. We further noted that the Exchange's personnel identified the error in fiscal year 2015 and adjusted the federal expenditures and reimbursement request.

Criteria: 45 CFR: Part 155.210 (f) states that "Funding for Navigator grants may not be made from Federal funds received by the State to establish the Exchange."

Cause: The Exchange did not ensure that only nonfederal funds were used for the navigator program.

Effect: Federal expenditures reported for the period ended September 30, 2014 were overstated by $28,336.

Recommendation: We recommend that the Exchange ensure that federal funds are used as prescribed by the grant.

2014-002 Condition: The Exchange did not provide evidence of the QHP's acknowledgement record for 8 items out of 77 tested.

Criteria: 45 CFR: Part 155.400 (b)(2) states that the Exchange "Establish a process by which a QHP issuer acknowledges the receipt of such information".

Cause: The carrier did not communicate with the Exchange to confirm receipt of the applicants' enrollment.

Effect: Enrollment count discrepancies may not be identified and resolved in a timely manner.

Recommendation: We recommend that the Exchange ensure that all acknowledgements are received in a timely manner to ensure prompt follow-up of any discrepancies.

CONCLUSION

We confirm that we have reviewed relevant documentation and determined that the D.C. Health Benefit Exchange Authority is in compliance with CMS requirements and GAGAS.

SIGNATURE OF AUDIT FIRM: Bert Smith & Co.

COMPLETION DATE OF AUDIT FINDINGS REPORT: May 27, 2015

DC Health Benefit Exchange Authority

AGENCY RESPONSES TO FINDINGS & CORRECTIVE ACTION PLANS

Finding 2014-001: Use of Federal Funds

Audit finding 2014-001 addressed an accounting error regarding the Navigator program in fiscal year 2014. The Exchange concurs with the finding with the following explanation.

It is important to note that the 1311 grant funds cross District fiscal years 2014 and 2015. Therefore while the correcting entry was done after the close of the District's 2014 fiscal year, it was completed within the grant budget period (9/27/2012 to 9/26/2015) and consequently has no impact on the final Federal Financial Report (FFR).

In fiscal year 2015 the Navigator Program is funded by Assessment funds (i.e. non 1311 grant funds) and is identified in the procurement system by a unique purchase order number that distinguishes it from other Exchange activities.

Point of Contact for Corrective Action Plan: Keith Fletcher, Agency Financial Officer, keith.fletcher@dc.gov, (202) 741-0930.

Finding 2014-002: QHP Enrollment Acknowledgement Files

Audit finding 2014-002 is that the Exchange did not provide evidence of the QHP's acknowledgement record for 8 items of 77 tested. The auditor found that acknowledgements from the carriers were missing in 8 of the 77 sample cases. Six of the 8 cases are qualified dental plans (QDP), and the other 2 are qualified health plans (QHPs). The Exchange concurs with the finding with the following explanation.

Each carrier, including dental carriers, must continue to update their IT systems before a monthly fully automated reconciliation process can occur. Recognizing challenges faced by carriers, HBX staff uses a partially automated and partially manual process. Given the resource demands with manual reconciliation, staff focuses on QHPs, not on QDPs. HBX recognizes that a manual process runs the risk of errors as found by the auditor.

In October 2014, in connection with our preparations for issuing IRS form 1095-A, we raised concerns about the reconciliation process with CMS and requested CMS staff to assist HBX with our carriers to improve the process. CMS was unable to influence the reconciliation process. Accordingly, we continue to devote the resources necessary to complete the reconciliation process with each of our carriers. We have standing weekly calls with each carrier to resolve data inconsistencies. We have also initiated process improvements to ensure accuracy of the information contained in our system of record and to ensure appropriate enrollment of individuals with carriers. We expect to have additional one-on-one meetings with each of our carriers this summer to discuss further steps we can take to improve the reconciliation process and ensure accuracy of our data.

Point of Contact for Corrective Action Plan: Robert Shriver, Director of Marketplace Innovation, Policy, and Operations, Robert.Shriver@dc.gov, (202) 741-8820.