

INDEPENDENT EXTERNAL AUDIT:

2015 AUDIT FINDINGS REPORT
COMMONWEALTH OF KENTUCKY
HEALTH BENEFIT EXCHANGE



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TO: Kentucky Health Benefit Exchange
FROM: Kentucky Auditor of Public Accounts
DATE: March 25, 2016

SUBJECT: Audit Findings Report for Kentucky

I. EXECUTIVE SUMMARY

PURPOSE

The purpose of this independent external audit is to ensure that the Commonwealth of Kentucky is in compliance with the financial and programmatic requirements set forth by the Centers for Medicare and Medicaid Services (CMS). Kentucky's Health Benefit Exchange (KHBE), also marketed as "kynect", is administered by the Kentucky Cabinet for Health and Family Services, which requested an external audit from the Kentucky Auditor of Public Accounts (APA) to comply with the audit requirements for State-based Marketplaces contained in The Program Integrity Rule Part II, 45 C.F.R. 155.

The APA is responsible for expressing an opinion about whether the financial statements of KHBE are fairly presented in all material respects, in conformity with U.S. generally accepted accounting principles and with generally accepted government auditing standards (GAGAS) as required by 45 C.F.R. 155.1200(c). Additionally, to meet the programmatic requirements established by CMS, the audit follows reporting requirements of OMB Circular A-133 as it relates to *CFDA 93.525 – State Planning and Establishment Grants for the Affordable Care Act (ACA) Exchanges*, as well as compliance requirements set forth for State-based Marketplaces in 45 C.F.R. Part 155.

SCOPE

The scope of the financial and programmatic audit is to examine KHBE financial and compliance activity as of and for the year ended June 30, 2015. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Therefore, our audit involved judgment about the number of transactions to be examined and the areas to be tested. Also, we planned and performed the audit to obtain reasonable rather than absolute assurance about whether the financial statements are free of material misstatement, whether from errors, fraudulent



financial reporting, misappropriation of assets, or violations of laws or governmental regulations that are attributable to the entity or to acts by management or employees acting on behalf of the entity. Draft financial statements, including statement of net position, statement of revenues, expenses and changes in net position, statement of cash flows and related note disclosures, were compiled by KHBE with the assistance of the Kentucky Finance and Administration Cabinet based on activity recorded in the Commonwealth's financial accounting system, eMARS. To arrive at an opinion on KHBE's financial statements, the audit consisted of testing financial records to support amounts reported in KHBE's draft financial statements.

These records included tests of receipts, expenses, including payroll expenses, and assets and liabilities and related accrual information, which included the following types of information:

- Grant drawdown requests and requests for payment.
- Internal worksheets for tracking drawdown requests.
- eMARS documentation to record receipt/expense transactions and the underlying supporting information.
- Summary reporting documentation.
- Vendor invoices.
- Reviews of contractual arrangements.
- Timesheets and related documents.
- Capital asset worksheets and related documentation.

In addition, compliance testing focused on significant compliance requirements outlined in the OMB A-133 Compliance Supplement for *CFDA #93.525 – State Planning and Establishment Grants for the Affordable Care Act (ACA) Exchanges*, and also the compliance requirements identified by CMS related to 45 C.F.R. 155. The compliance areas tested included:

- Activities Allowed/Allowable Costs
- Cash Management
- Eligibility
- Period of Availability
- Procurement, Suspension, and Debarment
- Reporting
- Subrecipient Monitoring
- General Functions of the Exchange, Subpart C
- Eligibility Determinations for Exchange Participation, Subpart D
- Enrollment in Qualified Health Plans, Subpart E
- Certification of Qualified Health Plans, Subpart K
- SHOP Guidelines – Eligibility, Enrollment, and Application

Specific information reviewed and tested in order to adequately assess compliance included:

- Processes and procedures for privacy and security of navigators
- Training Standards
- Breaches of Security

- Funding sources confirmation for navigator grants (not from federal funds)
- Call center accessibility, including English proficiency
- Management of confidentiality, disclosure, maintenance, and use of information procedures.
- Maintenance of data and records of eligibility verifications and determinations.
- Policies and procedures for certification of health plans.

Additionally, we obtained an understanding of the entity and its environment, as well as obtained an understanding of the internal control and the design of those controls. Our procedures included a review of policies and procedures for the accurate accounting of receipts, expenditures, including payroll expenditures, grants and contracts to ensure compliance with applicable compliance requirements. These tests also included KHBE's oversight and monitoring policies and procedures. Specifically, KHBE's monitoring controls related to the agency's IT system controls and eligibility determination that were deemed key. Testing of these areas included:

- Review of IT Policies which are grouped into the following categories: Logical Security, Managerial Security, Physical Security, Contingency Planning/Operations, Security Awareness Program, Application Security, and Administrative. Each policy was documented with a summary of its contents and the associated testing documentation.
- Review of controls over logical security access to KHBE application for both external and internal users. Additional review was performed on user accounts granted access rights that would allow an individual create, edit or delete information within the application.
- Review of internal procedures in place to perform vulnerability assessments as required by CMS.

The results of our audit include an "unmodified" opinion on the financial statements. However, we reported an emphasis of matter condition relating a going concern issue. The Commonwealth's State Based Exchange "kynect" has been requested to cease operations and transition to the Federal Exchange as soon as practicable. The change is not expected to take effect until open enrollment for 2017. The cost of moving to the Federal Exchange has not been determined. Our opinion is not modified with respect to this matter.

We have included our findings related to weaknesses noted in internal control and/or compliance. Those findings are included both in the audit report and as part of this report. In addition, KHBE has provided its corrective action plan to address the noted weaknesses in internal control and/or compliance.

Additionally, to meet the programmatic requirements established by CMS, the audit followed reporting requirements of OMB Circular A-133 as it relates to *CFDA 93.525 – State Planning and Establishment Grants for the Affordable Care Act (ACA) Exchanges*, as well as compliance requirements set forth for State-based Marketplaces in 45 C.F.R. Part 155

Further, we issued an unmodified opinion on KHBE's compliance with the types of compliance requirements described in OMB Circular A-133 Compliance Supplement that could have a direct and material effect on each of KHBE's major federal programs for the year ended June 30, 2015.

Finally, our consideration of KHBE's internal control over financial reporting disclosed three significant deficiencies, and one control deficiency. These findings and the agency's corrective action plan are fully described in the audit report of the Kentucky Health Benefit Exchange Audit.

METHODOLOGY

Background of Kentucky Auditor of Public Accounts

The APA was established by the Kentucky Legislature on June 22, 1792 and became an elected office on June 11, 1850. The Kentucky Auditor of Public Accounts is an independent and impartially elected-office charged with auditing the accounts and financial transactions of all state and local public accounts within the Commonwealth of Kentucky. The APA conducts and oversees more than 600 external financial audits, single audits, and special examinations annually, including the:

- Commonwealth's Comprehensive Annual Financial Report (CAFR);
- Commonwealth's Statewide Single Audit (SSWAK);
- Annual financial statement audits and single audits of local government offices, including the audits of fiscal courts, sheriffs, county clerks, and others.

The APA participates in the peer review program of the National State Auditor's Association (NSAA). In its most recent peer review conducted in 2013, the APA received an unmodified opinion.

Standards Followed During the External Audit

The audit of KHBE was conducted in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* (GAGAS), issued by the Comptroller General of the United States. The APA complies with these auditing standards, as identified in the independent auditor's letter included in KHBE's audit report.

Additionally, as noted in the independent auditor's letter in KHBE's audit report, KHBE's financial statements were presented in accordance with generally accepted accounting principles (GAAP). The APA believes the audit evidence obtained is sufficient and appropriate to provide a basis for an audit opinion in accordance with GAAP.

Interviews with Key Employees

As part of our audit of KHBE, the APA interviewed key employees within the KHBE program, the Cabinet for Health and Family Services, and the Finance and Administration Cabinet (FAC) who assisted in the preparation of the financial statements. Those officials included:

- Tammy Bullock, Director Kentucky Office of Health Benefit and Information Exchange, Division of Financial and Operations Administration
- Reina Diaz-Dempsey – Staff Assistant – KHBE
- Leigh Edens – Program Coordinator – KHBE

- Tracy Kemper, Program Coordinator - KHBE
- Dave Sumner, Division of Accounting and Procurement Services, CHFS
- Kelli Hill, Assistant Director, Division of Accounting and Procurement Services, CHFS
- Rodney Murphy, Director of Office of Administrative and Technology Services (OATS)
- Christopher Clark, OATS
- Richard Chapman, OATS
- William Nold, Deputy Executive Director, KHBE
- Kim Moore, Assistant Controller, FAC
- Tommy Ritchie, Accountant, FAC

Procedures for this audit included additional interviews with KHBE, CHFS, and FAC staff, to gain an understanding of the internal controls in place for receipts, payroll, and expenditures. In addition, the APA documented compliance with federal program requirements, including those associated with OMB Circular A-133 and State-based Marketplace requirements contained in 45 C.F.R. 155. Further, we requested and examined various records and information that included, but was not limited to, organizational charts, certain expense reimbursements, vendor payments, contracts, policies, procedures, data system configuration settings, and other information.

Sampling Methodology

Audit testing generally includes both tests of internal controls and substantive tests of details, including tests of compliance. Audit sampling is the application of an audit procedure to less than 100 percent of the items within an account balance or class of transactions for the purpose of evaluating some characteristic of the balance or class. The APA used sampling techniques during internal control and substantive testing.

The APA sampling is a nonstatistical sampling methodology that utilizes certain statistical features to assess the sufficiency of sample sizes in the population. This sampling methodology meets documentation requirements in auditing standards, including *Codification of Statements on Auditing Standards* Section AU-C 530. Included in this methodology are:

- Considerations of the relationship of the sample to the relevant audit objective,
- Preliminary estimates of materiality levels,
- Determination of the auditor's allowable risk,
- Consideration of the characteristics of the population,
- Evaluation of the sample results, and
- Projection of the results into the population, when applicable.

Summary of Programmatic Procedures

Specific information reviewed and tested in order to adequately assess compliance included:

- Processes and procedures for IT Privacy and Security

Kentucky's Health Benefit Exchange portal is called "kynect," and it became active October 1, 2013. The "kynect" program offers a one-stop shopping portal for healthcare ratifying the

Enrollment and Eligibility solution. This program can be used to receive payment assistance, special discounts or tax credits, compare insurance plans, and qualify for Medicaid or the Kentucky Children's Health Insurance Program (KCHIP). The APA performed testing that included a review of IT policies which were grouped into the following categories: Logical Security, Managerial Security, Physical Security, Contingency Planning/Operations, Security Awareness Program, Application Security, and Administrative. Each policy was documented with a summary of its contents and the associated testing documentation.

The APA performed a review of controls over logical security access to the KHBE application for both external and internal users. Additional review was performed on user accounts granted access rights that would allow an individual to create, edit or delete information within the application.

In addition, the APA performed a review of internal procedures in place to perform vulnerability assessments as required by CMS.

- Training Standards

KHBE employees are provided a combination of corporate-developed training curriculum along with web-based training courses. Specifically related to the self-service portal, KHBE employees are provided the following training topics:

- Pre-screening
- Applying online
- Shopping for individuals
- SHOP for employers
- SHOP for agents
- Enrollment
- Using the kynect Personal Dashboard
- Using the kynector Dashboard
- SHOP Worker Portal for administrators
- Verifying information
- Understanding eligibility
- Shopping for employees
- SHOP for kynectors
- SHOP for administrators
- Ending and changing coverage
- Using the Agent Dashboard
- Using the Contact Center Dashboard.

The APA reviewed KHBE's processes and procedures for the training of its employees and confirmed that KHBE is in compliance with 45 C.F.R. 155.205 Subpart C.

- Consumer assistance and accountability

Based on a review of the functions performed by KHBE, the auditor has determined that KHBE is focused on providing assistance to individuals and small businesses in eligibility determination, coverage appeals, and complaints. Support Services are a significant function of KHBE, which includes Education and Outreach, customer service and technical support. Through a large targeted Education and Outreach campaign, and through kynectors, KHBE has provided assistance for individuals and small business owners to learn about KHBE, determine eligibility and enroll in health insurance coverage. In addition, individuals and small businesses have the ability to file appeals and complaints through multiple channels; online, in person, over the phone on KHBE's toll-free hotline or through the Customer Assistance Program (CAP). Services are available in English, Spanish, and other languages.

- Eligibility determinations for Exchange Participation and Insurance Affordability Programs and Enrollment in Qualified Health Plans (QHP)

Primary to the mission of "kynect" is the efficient, effective determination of eligibility of applicants to KHBE and the timely, accurate enrollment of participants to qualified health plans, all supported by proper documentation. Under the Affordable Care Act, Kentucky residents are able to participate in the KHBE system "kynect" to determine their eligibility for health insurance programs, premium assistance and special discounts (which include Medicaid, Kentucky Child Insurance Program, Annual Premium Tax Credits, and Cost Sharing Reductions), compare available individual health insurance plans, and enroll in a health plan.

Beginning on October 1, 2013 "kynect" applicants were able to submit eligibility applications to the Exchange via mail, web portal, phone, or in-person at a local DCBS office. Once an applicant's application was submitted, his or her eligibility was determined through an automatic process that compared submitted data with federal information accessed through the Federal Data Services Hub (FDSH). If an applicant's submitted information could not be verified through FDSH, a notice was automatically sent to the applicant, either through the "kynect" or by mail, informing him or her to submit documentation validating what was submitted.

Once an applicant's eligibility has been verified, he or she can compare plan options from available QHPs and select a plan that meets his or her needs. However, if an applicant disagrees with an eligibility determination, he or she can submit an appeal request that will be heard by the CHFS Division of Administrative Hearings.

The APA performed tests to ensure that KHBE was in compliance with the following areas:

- Standard operating procedures and processes for making accurate eligibility determinations and enrollments in compliance with federal regulations;
- Management review/internal controls associated with the prevention/ identification and correction of improper eligibility determinations and/or enrollments in compliance with federal regulations;
- Current and fully executed agreements with other entities that specify respective responsibilities in connection with eligibility determinations and enrollments;

- Enrollees to receive accurate advance premium tax credits (APTC's), cost-sharing reductions, and premiums;
- Compliance with Centers for Medicaid & Medicare Services (CMS)-issued Standard Companion Guides (e.g. ASC X12 820 and 834);
- Proper and timely reconciliation of enrollment information with qualified health plan issuers; and
- Effective data and records maintenance practices relating to eligibility determinations and enrollments.

The APA interviewed process owners and reviewed process control documentation. The APA conducted process walkthroughs to identify and classify key controls for testing including verification of basic applicant data, MAGI eligibility, account update procedures, exemption requests, appeals, and reporting to federal and state agencies. The internal control documentation included items such as policies and procedures for eligibility determinations, account updates and terminations, management reports, member applications, etc.

Specific to 45 C.F.R. 155.1200(c), the APA's scope of work was designed to assess overall compliance with 45 C.F.R. 155, KHBE's processes and procedures designed to prevent improper eligibility determinations and enrollment transactions, and identification of errors that may have resulted in incorrect eligibility determinations.

The results of the tests confirmed that KHBE has adequate controls over Eligibility Determinations for Exchange Participations and Enrollment in Qualified Health Plans and is in compliance with the guidelines set forth in 45 C.F.R. Part 155, Subpart D & Subpart E.

- Policies and procedures for certification of health plans.

"Kynect" is designed to make comprehensive health insurance plans available to qualified individuals, including small businesses and their employees. "Kynect" identifies programs, including Medicaid, Children's Health Insurance Program and tax credits for private insurance plans that the individual may be eligible for, and presents these plans in a "shop and compare" format that allows the individual to make a decision based on information presented. The "shop and compare" format displays health insurance options based on price, benefits, quality, and other features.

"Kynect" also facilitates enrollment with the health plan issuers (insurance companies) once a selection has been made. Insurers offering plans through "kynect" are not permitted to refuse to insure any eligible individual, have price variation limits based only on age, geography, family size and tobacco use, and must offer plans at multiple levels to increase individual choice.

Health insurance plans must be certified to be offered on "kynect" and must meet certain minimum standards, such as offering tiered plans, ensuring the plans cover the essential health benefits and complying with the new insurance market reforms. In addition to the standard metal-level plans (Bronze, Silver, Gold, Platinum), Catastrophic plans are available.

A Qualified Health Plan (QHP) Issuer is an insurance company that is required to be licensed in the business of insurance in the Commonwealth. In order to participate in “kynect,” various requirements must be met. Examples of the various requirements are as follows:

- Hold a certificate of authority and be in good standing with the Kentucky Department of Insurance.
- Be authorized by KHBE to participate on “kynect”
- Enter into an agreement with KHBE.
- Offer QHP’s that have been certified by KHBE in the individual or SHOP Market.
- Comply with benefit design standards as established in 45 C.F.R. Part 156.20
- Comply with applicable standards described in 45 C.F.R. Part 153

The APA performed testing on 100% of the health insurance plans offered through “kynect.” The results of the testing confirmed that KHBE has adequate controls over the certification of QHP’s and is in compliance with the guidelines set forth in 45 C.F.R. Part 155, Subpart K.

- Small Business Health Option Program (SHOP)

Under the Affordable Care Act, Kentucky Small Employers with less than 50 full time employees are able to participate in the (SHOP).

Small Employer’s eligibility must be verified by KHBE based on the following pre-defined criteria:

- A small employer with less than 50 employees (cannot be a sole proprietor);
- Has at least one common law employee;
- They elect to offer, at a minimum, all full-time employees coverage in a QHP through the SHOP; and
- Either offers coverage through their principal business address in KHBE’s service area; or offers coverage at each employee’s primary worksite in the KHBE service area.

Employers are also required to provide UI3 (unemployment report) and Employer Identification Number (EIN) validation documentation to KHBE for verification purposes. During this process, the Employer is required to upload the employee roster, which is compared to information on the UI3. Any discrepancies are followed up by KHBE staff with the employer.

After an employer is deemed eligible, he can select plan options from available QHPs on the SHOP for its employees to choose from. At this time, the employer makes plan selections, selecting either a single QHP or multiple QHPs with metal levels that are equal and/or contiguous. Employers also choose the level of contribution they will pay towards their employees’ medical premium. The employer may also select a percentage to pay towards the employees’ dental premium, and/or a percentage towards medical or dental coverage for a spouse and dependent(s), if offered. The IRS regulation states that the employer must elect to contribute at least 50% of employee premium to qualify for a tax credit. “Kynect” also requires a minimum contribution percentage of 50% for participation in the SHOP (except during amnesty periods as specified by federal regulations).

The SHOP has a rolling open enrollment period, which means that an employer may begin his insurance coverage at any time during the year. After the initial open enrollment, the following open enrollment periods are scheduled annually. During open enrollment, an employee can submit an application and select a QHP and/or dental plan that covers the employee and/or the employee's family (if dependent coverage is offered by the employer). KHBE checks the participation rate to make sure at least 75% of the employees are participating. If eligible employees opt out with valid reasons, their lack of participation will not be included in the participation rate calculation. If the participation rate is less than 75%, the employer will not be able to participate in the SHOP exchange.

The APA performed tests to ensure that KHBE was in compliance with the following areas:

- The SHOP participant is a small employer, or an employer with no less than one employee and no more than 100 employees, unless a State elects to limit enrollment in the small group market to employers with no more than 50 employees until 1/1/16. The SHOP must employ at least one common law employee.
- The SHOP may use the information attested to by the employer or the employee on the application but must, at a minimum verify that an individual attempting to enter the SHOP as an employee is listed on the qualified employer's roster of employees to whom coverage is offered.
- The SHOP must report to the Internal Revenue Service (IRS) employer participation and employee enrollment information for tax administration purposes.
- Open enrollment period will be at least 30 days. Employer election period will be at least 30 days. SHOP must establish coverage effective dates consistent with 45 C.F.R. 155.720.
- The SHOP must adhere to the application requirement outlined in 45 C.F.R. 155.730.
- Special enrollment periods in the SHOP are based on whether an individual becomes a newly eligible qualified employee. Enrollment periods will be available to those who become qualified employees outside of the initial or annual open enrollment period.

The results of our auditing procedures disclosed instances of noncompliance with CMS requirements - the SHOP must report to the IRS employer participation, employer contribution, and employee enrollment information in a time and format to be determined by HHS, and which is described in the accompanying audit findings section as 2015-003.

- Functions of "kynect"

"Kynect" is Kentucky's health insurance exchange. It serves individuals, families and small employers and provides access to a range of coverage options, including Medicaid and KCHIP. The goal of "kynect" is to be a mechanism for organizing the health insurance exchange. Individuals and small business can access coverage in a way that permits easy plan comparison based on price, benefits, services and quality.

Based on a review of the functions performed by KHBE, the auditor has determined that KHBE is focused on providing assistance to individuals and small businesses in eligibility determination, coverage appeals, and complaints. Support services are a significant function of KHBE, which includes education and outreach, customer service and technical support.

Through a large education and outreach campaign, and through kynectors, KHBE has provided assistance for individuals and small business owners to learn about KHBE, determine eligibility and enroll in health insurance coverage. In addition, individuals and small businesses have the ability to file appeals and complaints through multiple channels; online, in person, over the phone through the KHBE toll-free hotline or through the Customer Assistance Program (CAP). Services are available in English, Spanish, and other languages.

II. AUDIT FINDINGS

KEY FINDINGS

2015-KHBE-001: The Cabinet For Health And Family Services Caseworkers Incorrectly Merged Member Case Files

Sufficient controls were not in place within the Kentucky Health Benefit Exchange (KHBE) Worker Portal module to ensure caseworkers only merged potential duplicate case files where sufficient data was matched. Incorrectly merged cases increases the potential risk for someone other than the member to be able to view personal identifiable information (PII) through KHBE's user application, kynect. Although cases of incorrectly merged files were identified, there were no cases of PII being accessed by someone other than the member. This issue was first noted in FY 2014.

During FY 2015, CHFS worked with an outside vendor to review and analyze merged cases in order to determine potential issues. The vendor provided the agency with 524 cases to review. Of these cases, 344 case files, or approximately 65.6 percent, were identified as being incorrectly merged and were further investigated as possible security issues for disclosure. Upon the agency's review, it was determined no disclosures were made.

To prevent the inappropriate merger of cases in the future, in response to the prior year comment, CHFS management altered features within the system to provide CHFS employees with tools to better assess whether duplicate cases exist and need to be merged or are unique and should be maintained separately. These tools include filtering for specific data matches and additional detailed information and comparison capabilities that would allow the CHFS employees to make more informed determinations. These changes were put into place in February and March 2014. In addition, business rules for the programmatic identification and merging of duplicate cases were tightened. Application changes were made to make the manual merging of cases more difficult and to require more reviews by caseworkers.

Additional training was conducted and job aids were developed for caseworkers to clarify functionality and use of the KHBE system. Furthermore, an additional tool, which is monitored multiple times throughout the day, has been provided to help monitor the potential merger of cases.

Historically, individuals who are requesting eligibility determinations for service would meet with a CHFS Department of Community Based Services (DCBS) employee and provide all necessary information at that time. This direct interaction would allow the employee to better make the determination of whether there was an existing case within the system for the individual. Although direct interaction with DCBS employees is still an option, with the advent of KHBE, individuals now also have the ability to enter their own personal information into the website. This change introduced the potential for case files to be incorrectly merged.

If case files are incorrectly merged, it is possible for an individual other than the member to view or alter PII related to the member.

Access to PII should be restricted to only the associated member and appropriate staff who must work with the data in order to provide the required services. Further, separate case files should be maintained for all unique individuals.

2015-KHBE-001: The Cabinet For Health And Family Services Caseworkers Incorrectly Merged Member Case Files (Continued)

Recommendation

We recommend CHFS continue to monitor the effectiveness of the tools put in place to assess whether cases are duplicates and need to be merged or are unique and should be maintained separately. If these tools are not as effective as anticipated, CHFS management should consider additional process changes to ensure only true duplicate case files are merged.

Management's Response and Corrective Action Plan

CHFS agrees with the comment and recommendation. We continue to monitor the effectiveness of the tools put in place in 2014 and 2015 to assess whether or not cases are duplicates and need to be merged or are unique and must be maintained separately.

In March of 2014 we implemented Change Request (CR) 217 and 228 which provided more guidance to assist workers in making accurate assessment of the potential incorrect matches, as well as system changes to mitigate improper matches. Specifically, in the self-service portal, where individuals can enter their own information, changes were made to the logic so that if a SSN is not verified by SSA, the user will have two more attempts to verify it. If a user does not provide a SSN that can be verified by SSA, a pseudo SSN will be assigned. Within the worker portal where the Department for Community Based Services (DCBS) employees enter information in conducting eligibility determinations, there were both system logic updates and screen updates made. In addition to the SSN logic, an Individual Comparison Screen was also added in order to enable the user to perform side by side comparison of two individuals. This screen assists the user in determining if the Master Client Index (MCI) has performed a proper link or auto-link. Prior to this CR, EDBC checked only KAMES for existing benefits. Now, EDBC checks both KAMES and HBE for existing benefits. Additionally, Job Aids were provided for the workers to provide clarity around system changes and guidance regarding incorrect member matches.

The tools put in place previously have been effective in reducing the number of incorrect matches however, to ensure only true duplicate cases are merged we have continued to implement system changes and promulgate guidance to further reduce incorrect matches. On June 26, 2015 guidance was released to field staff with guidelines sent out by central office focused on the prevention of incorrect member matches and member overlay errors. A copy of the June 26, 2015 memo was provided to the auditors along with this response.

Additionally, CR 374 scheduled to go live with a release in October of 2015. A copy of the proposed release document for CR 374 was provided to the auditors along with this response. The intended functionality will prevent workers from incorrectly changing identifying information for individuals when they should be creating a new individual. For example, information will be locked down if it is verified by a listed source. There will also be a pop-up

2015-KHBE-001: The Cabinet For Health And Family Services Caseworkers Incorrectly Merged Member Case Files (Continued)

Management's Response and Corrective Action Plan (Continued)

that will provide guidance to workers on creating an individual versus modifying information. Role specifications will be put in place so that only workers with appropriate roles will be to edit information that is locked. Finally, a job aid will be available to the field staff as soon as this CR goes into effect.

Moreover, CHFS designated a Security and MCI team that is dedicated to immediately addressing any incorrect member matches or member overlay issues that may occur.

CHFS understands the serious nature of the potential disclosures that may result from incorrect matches and will continue to take steps to hone the system and our processes to mitigate future incidents.

2015-KHBE-002: The Kentucky Health Benefit Exchange Did Not Pay All Invoices Timely

During the FY 2015 audit of the Kentucky Health Benefit Exchange (KHBE), tests of invoices were conducted to verify that controls were in place to ensure accuracy, timeliness, and completeness of KHBE expenditures. Based on the evidence provided for the sample items tested, test results indicated that 11 invoices were not paid in a timely manner. All 11 of these invoices were paid more than 30 business days after the invoice date, with the latest payment being 61 past the invoice date.

Based on test calculations, the amount owed to vendors as an interest penalty, per KRS 45.454, for the late payments should have included an additional \$136,195.

Failure to pay vendors timely may increase costs for the agency, can affect the efficient operations of the agency and the may negatively impact the vendor customer relationship. Furthermore, failure to timely record expenditures in the eMARS statewide accounting system timely could result in misstated expenditures in the financial statements.

Failure to pay bills timely constitutes a noncompliance with KRS 45.453 which states, "All bills shall be paid within thirty (30) working days of receipt of goods and services or a vendor's invoice except when the purchasing agency has transmitted a rejection notice to the vendor."

Additionally, KRS 45.454 states, "An interest penalty of one percent (1%) of any amount approved and unpaid shall be added to the amount approved for each month or fraction thereof after the thirty (30) working days which followed receipt of the goods or services or vendor's invoice by a purchasing agency."

2015-KHBE-002: The Kentucky Health Benefit Exchange Did Not Pay All Invoices Timely (Continued)

Recommendation

We recommend that payments be made timely. Controls should be developed and implemented to ensure payments are made in a reasonable time frame in compliance with statutes. The agency should take steps to ensure that people involved in processing and approving payments read and understand all relevant laws and policies.

Management's Response and Corrective Action Plan

The tested invoices included cost allocated contracts with detailed deliverables and service level agreements that involve funding approvals by multiple agencies prior to submitting invoices to the Division of Accounting and Procurement Services (DAPS). To prevent late payments, pertinent staff within each agency participating in the cost allocation will be provided a copy of KRS 45.453 to ensure all parties are aware of the statutory deadlines for paying invoices. In addition, internal processes will be updated to inform staff who receive and route invoices for approval that follow-up needs to be done if no action is taken within ten (10) days and then again in fifteen (15) days of an invoice being sent to the reviewer/approver to ensure invoices are routed timely to DAPS for payment processing. Staff will also be notified that if an issue arises with an invoice they should notify the employee responsible for receiving/routing invoices immediately. At that point, the vendor will be notified immediately in writing to ensure the department stays in compliance with KRS 45.453.

2015-KHBE-003: The Kentucky Health Benefit Exchange Did Not Comply With IRS Reporting Requirements

The Patient Protection and Affordable Care Act (ACA) was enacted by the U.S. Congress on October 23, 2010 and established the framework for the operation of health insurance exchanges. Specific regulations were further detailed in the Centers for Medicare and Medicaid Services (CMS) Final Rule 9957, published July 19, 2013 and incorporated into 45 C.F.R. §155. In accordance with general program integrity and oversight requirements, 45 C.F.R. §155,1200 requires entities operating as state-based marketplaces (SBM) to engage an independent qualifying auditing entity which follows generally accepted governmental auditing standards (GAGAS) to perform an annual independent external programmatic audit.

The Kentucky Health Benefit Exchange (KHBE) was first authorized by Executive Order on July 17, 2012 as a state agency within the Commonwealth of Kentucky's Cabinet for Health and Family Services. The KHBE facilitates the purchase and sale of health plans in the individual market; assists small employers in facilitating the enrollment of their employees in health plans; provides one-stop shopping by also helping individuals enroll in Medicaid and Kentucky Children's Health Insurance Program (KCHIP) health plans; enables individuals to receive premium tax credits, premium subsidies and reduced cost sharing; and qualifies small businesses for tax credits.

We performed specific procedures to evaluate instances of noncompliance and to test KHBE's compliance and program effectiveness with the subparts of 45 C.F.R §155.

2015-KHBE-003: The Kentucky Health Benefit Exchange Did Not Comply With IRS Reporting Requirements (Continued)

Subpart H-Exchange Functions: Small Business Health Options Program (SHOP), 45 C.F.R. §155.720
Enrollment of employees into QHPs under SHOP states:

- (i) Reporting requirement for tax administration purposes. The SHOP must report to the IRS employer participation, employer contribution, and employee enrollment information in a time and format to be determined by HHS.

Per discussions with KHBE management, the reporting requirement for tax administration purposes was an option for Plan Year 2014 because the IRS was assisting the states in implementing the new ACA requirements. The report provides verification to the IRS of the SHOP enrollment information which can be used by the IRS to determine if an employer qualifies for a small business tax credit based on SHOP eligibility requirement.

For Plan Year 2015, states were required to submit the reports. However, KHBE did not submit the required reports to the IRS.

Due to KHBEs delay in developing a system and processes to support the monthly reporting requirement, KHBE was unable to fulfill the IRS reporting requirement.

45 C.F.R. § 155.720 requires KHBE to report to the IRS data relating to the SHOP. The SHOP must report to the IRS employer participation, employer contribution, and employee enrollment information.

Recommendation

The KHBE should implement and document processes to ensure the SHOP submits the required reports to the IRS. We also recommend the KHBE ensure the SHOP submits all required reports for Plan Year 2015 that were not submitted.

Management's Response and Corrective Action Plan

The SHOP report is a cumulative monthly electronic file that is reviewed and transmitted by the Information Technology staff which includes the KHBE IT vendor, Deloitte, and the CHFS Office of Administrative and Technology Services (OATS) staff. The monthly SHOP electronic file (report) was not submitted during calendar year 2015 because Deloitte and OATS did not receive file testing approvals from the Centers for Medicare and Medicaid Services (CMS) and the Independent Verification and Validation (IV&V) team until the end of November 2015. Since that time, the report has been successfully submitted and will continue to be submitted in accordance with a comprehensive process that is being developed and documented by OATS management.

2015-KHBE-003: The Kentucky Health Benefit Exchange Did Not Comply With IRS Reporting Requirements (Continued)

Management's Response and Corrective Action Plan (Continued)

This comprehensive process will include:

- *Establishing a small workgroup to complete the process documentation;*
- *Confirming reporting dates and requirements, as well as the optimum solution for presenting past data to the IRS;*
- *Assigning the report to an Analyst, as well as a backup, as a monthly job duty; and*
- *Tracking report activity through the Project Management Office by the Deliverables Manager.*

AUDITOR'S OPINION

Based on the Key Findings above, it is the Auditor of Public Accounts' opinion that the accounting practices and financial statements reviewed during the 2015 independent external audit are:

MODIFIED UNMODIFIED ADVERSE DISCLAIMER

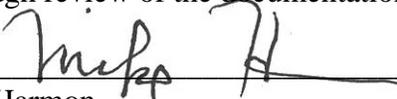
III. RECOMMENDATIONS

Recommendations made by the APA are included with the Key Audit Findings in Section II above.

KHBE's management responses to audit findings identify its corrective action plan are also included with the Key Audit Findings in Section II above.

IV. CONCLUSION

We confirm to the best of our knowledge that the information included in this Audit Findings Report is accurate and based on a thorough review of the documentation required for this report.

Signature of Audit Firm: 
Mike Harmon
Auditor of Public Accounts

Completion Date of Audit Findings Report: March 25, 2016