

Independent External Audit Report:  
Financial Audit Findings Report  
Fiscal Year Ended June 30, 2016

State of Maryland  
Maryland Health Benefit Exchange



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## I. EXECUTIVE SUMMARY

### Background

On April 12, 2011, Governor Martin O'Malley signed into law, the Maryland Health Benefit Exchange Act of 2011, formally establishing Maryland Health Benefit Exchange (MHBE) as a public corporation and independent unit of state government. MHBE operates Maryland Health Connection to provide Maryland residents and small businesses with a marketplace to compare plans, shop, and enroll in affordable health care coverage.

MHBE is an independent agency within the State of Maryland. Financial data is maintained in the Relational Standard Accounting and Reporting System (RStars). MHBE is responsible for the accounting of expenditure transactions; however, they have little control over the collection, recording, and monitoring of receipts as these are handled by other agencies. The Maryland State Department of Health and Mental Hygiene (DHMH) is responsible for the collection and recording of Medicaid claims for the State. The Maryland Insurance Administration (MIA) is responsible for the collection and recording of the insurance premium tax, a portion of which is used to fund MHBE. DHMH is responsible for the collection and recording of federal grant funds received on behalf of MHBE as they were the original grantee (as MHBE did not exist at the time of award). MHBE is made aware of and has the ability to view receipt transactions recorded in the system.

Financial statements are not prepared at the agency level as MHBE is included in the Maryland State Comprehensive Annual Financial Report. As such the Comprehensive Annual Financial Report for the State of Maryland is separately submitted to serve as confirmation that receipts are recorded in accordance with Generally Accepted Accounting Principles.

### Purpose and Authority

The purpose of this financial audit is to ensure that MHBE meets the compliance requirements as required by 45 CFR 155.1200-1210, Subpart M – Oversight and Program Integrity Standards for State Exchanges. Compliance is the responsibility of MHBE's management. It is our responsibility to express an opinion on the entity's compliance with the requirements based on our audit. Our audit does not provide a legal determination of MHBE's compliance. Because of inherent limitations in any internal control structure misstatements due to error or fraud may occur and not be detected.

### Scope

The objective of the audit was to test for accurate accounting of MHBE expenditures in accordance with GAAP. We audited the MHBE expenditures (Appendix A), which totaled \$94,995,489, for fiscal year 2016, from July 1, 2015 to June 30, 2016. A separate report will be issued for the programmatic compliance audit.

### Generally Accepted Government Auditing Standards Statement

We conducted this financial audit in accordance with Generally Accepted Government Auditing Standards (GAGAS). 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.

## **Methodology**

Hamilton Enterprises, LLC (Hamilton) conducted interviews with key personnel and walkthroughs of the expenditure process within MHBE. Hamilton performed analytical procedures on the expenditure population and selected a random sample of forty-five (45) expenditure transactions for testing from the period beginning July 1, 2015 and ending June 30, 2016.

## **II. AUDIT FINDINGS**

In our opinion, MHBE was compliant with 45 CFR part 155, Subpart M for the recording of Exchange expenditures in accordance with GAAP.

In accordance with GAGAS, we are required to report all deficiencies that are considered to be significant deficiencies or material weaknesses in internal control; fraud and noncompliance with provisions of laws or regulations that have a material effect on the expenditures; and any other instances that warrant the attention of those charged with governance; noncompliance with provisions of contracts or grant agreements, and abuse that has a material effect on the expenditures. We are also required to obtain and report the views of responsible officials concerning the findings, conclusions, and recommendations, as well as any planned corrective actions. We performed our examination to express an opinion on whether the expenditures were prepared in accordance with GAAP, and not for the purpose of expressing an opinion on the internal control over the expenditures; accordingly, we express no such opinion.

Our examination identified certain findings that are required to be reported under GAGAS and those findings, along with the views of responsible officials, are described in Finding 1.

### **Finding 1: Journal Entries - Segregation of Duties/Management Override**

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#### **a. Condition, Cause and Effect**

Hamilton noted two instances where journal entries were prepared by the same individual that was responsible for their review and approval.

In this instance, a key management position was in transition and due to this, in conjunction with the year-end closing, entries were made without review by someone other than the preparer. The entries were recorded in the system by another individual as management does not have the ability to record the entries.

The risk of management override of controls as well as a lack of segregation of duties exists when management is required to prepare the entries prior to their recordation in the system. Lack of a review of journal entries could lead to errors, fraud, or abuse.

**b. Criteria**

State of Maryland Accounting Procedures Manual - 5.8 Financial Reporting:

“Segregation of duties for responsibility of approval of journal entries.”

**c. Recommendation:**

MHBE should maintain segregation for the preparation and approval of journal entries by identifying a knowledgeable individual that can review and approve entries made by management to mitigate the risk. Entries should not be entered into the system without the proper signatures indicating approval.

**d. MHBE Response:**

Concur. MHBE Finance will revise its general accounting policies and procedures to include procedures which ensure proper segregation of journal entry and review responsibilities at all times. MHBE Compliance will monitor consistent application of the procedures by reviewing a statistically significant sample of journal entries and reporting findings to the Compliance committee on a quarterly basis. Projected implementation date: 06/30/17.

**e. Hamilton’s Response:**

Hamilton Enterprises agrees with MHBE’s response.

## **III. STATUS OF PRIOR YEAR AUDIT FINDINGS**

### **PY Finding 1: MHBE is not in compliance with 45 CFR part 155.1200**

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**a. Condition, Cause and Effect**

MHBE does not produce financial statements for the Exchange, and it does not account or collect for Exchange receipts. MHBE is funded with Federal grants, Medicaid reimbursements, and an appropriation from the State of Maryland. MHBE does not have control over the collection, recording, and monitoring of these receipt streams. DHMH is responsible for the collection and recording of federal grant funds and Medicaid claims. MHBE’s involvement in the Medicaid claims process is limited to reporting to DHMH the amount of expenses they determine to be claimable. A portion of the insurance premium tax collected by MIA is distributed to the MHBE fund for the operation and administration of MHBE. An annual appropriation provides MHBE the authority to spend from this fund up to a legislative limit on a reimbursable basis. Any unspent appropriated funds revert to the State General Fund at the end of the State fiscal year.

MHBE assets are the property of the State of Maryland. MHBE authorizes, but does not control the disbursement of funds or bank accounts which are managed by the Comptroller of Maryland. The fiscal ownership for agency assets are the responsibilities of other state agencies.

The organizational structure of MHBE's funding and oversight is not conducive to the accounting for Exchange receipts or preparation of financial statements to satisfy 45 CFR part 155.1200.

Without the authority to oversee these key financial areas, MHBE cannot produce a financial statement that would be representative of agency activity or maintain compliance with 45 CFR part 155.1200.

**b. Criteria**

45 CFR part 155.1200 states:

*(a) General requirement.* A State Exchange must:

(1) Keep an accurate accounting of Exchange receipts and expenditures in accordance with generally accepted accounting principles (GAAP).

*(b) Reporting.* The State Exchange must, at least annually, provide to HHS, in a manner specified by HHS, the following data and information:

(1) A financial statement presented in accordance with GAAP by April 1 of each year.

**c. Recommendation:**

Hamilton recommends that MHBE continue to consult with the Center for Consumer Information and Insurance Oversight on the efforts necessary to comply with 45 CFR part 155.1200.

**d. MHBE Response:**

Concur. The MHBE will continue to consult with the Center for Consumer Information and Insurance Oversight regarding 45 CFR part 155.1200. The Chief Compliance Officer and Chief Financial Officer have responsibility to consult with CCIIO. Projected completion date is October, 2016.

**e. Hamilton's Response:**

Hamilton Enterprises agrees with MHBE's response.

**f. Status of Prior Year Findings:**

MHBE has received instruction from CCIIO clarifying the requirement for their reporting requirements. MHBE is now advised to submit along with this report the Maryland State CAFR. Finding has been resolved.

## **PY Finding 2: MHBE does not have written documentation of their internal control systems surrounding the expenditure cycle**

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### **a. Condition, Cause and Effect**

MHBE has adopted the State of Maryland General Accounting Division prescribed procedures as documented by the Comptroller of Maryland in Section 3 of the Accounting Procedures Manual for the Use of State Agencies for the RStars.

While this manual provides a basis for procedures it is crucial that MHBE document their agency-specific processes and the surrounding controls to ensure that accountability is established for the financial transactions administered by MHBE. Without documented controls the risk of error, misstatement, or fraud increases in any organization. By documenting the current controls around the expenditure transaction cycle, MHBE would create clear lines of authority and responsibility for proper transaction processing.

### **b. Criteria**

Comptroller of Maryland - Internal Control Manual

State managers must take systematic and proactive measures to:

- (i) develop and implement appropriate, cost-effective internal control for results-oriented management;
- (ii) assess the adequacy of internal control in State programs and operations;
- (iii) separately assess and document internal control over financial reporting;

### **c. Recommendation:**

Hamilton recommends that MHBE document their agency-specific internal control system currently in place for the expenditure cycle. These controls should be documented in the appropriate level of detail to allow those responsible to perform the control and allow management to effectively monitor the control activity.

### **d. MHBE Response:**

Concur. The MHBE is in the process of formalizing various policies related to this recommendation. The MHBE agrees that documenting current controls at the appropriate level of detail will ensure the current control process is widely understood and effectively monitored. The Chief Financial Officer and Chief Compliance Officer have responsibility for development and implementation of the controls. Projected to be completed by October, 2016.

### **e. Hamilton's Response:**

Hamilton Enterprises agrees with MHBE's response.

**f. Status of Prior Year Findings:**

MHBE has since documented their procedures around the expenditure cycle. Finding has been resolved.

## 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.

*Hamilton Enterprises LLC*

Greenbelt, Maryland  
March 31, 2017



**State of Maryland  
Maryland Health Benefit Exchange  
Financial Audit Findings Report**

**Fiscal Year Ending June 30, 2016**

**V. APPENDIX A**

**Maryland Health Benefit Exchange  
FY16 Expenditure Schedule**

Obj	Agency Object	FY16 Actual w/ Enc.	FY16 Approp (*)
(*) Includes Original Approp plus Deficiencies and Amendments			
<b>D78Y0101 Program Direction</b>			
0111	Salaries And Wages	\$ 4,771,291	\$ 5,185,811
0121	Employer's Fica	343,668	376,409.00
0131	Employee's Retirement System	777,481	832,003.28
0141	Health Insurance	664,697	734,988.00
0142	Retiree Health Insurance	363,049	377,844.00
0151	Turnover	-	(256,101.00)
0161	Unemployment Insurance Reg	12,939	14,519.70
0162	IWIF	-	15,981.00
0175	Worker's Compensation	36,089	-
0182	Adjustments	44,521	73,879.00
0184	Efficiency Reduction	629	-
0185	Leave Payouts	-	-
0280	Special Payment Payroll	46,357	-
0291	Employer's FICA	3,290	-
0292	Contractual Unemployment	130	-
0301	Postage (Stamps Meter Po Box)	2,686	1,100.00
0303	Telecommunications	606	-
0304	Cellular Telephone Services & Equipment	21,654	19,910.00
0305	Telephone And Toll Services	58,578	54,578.00
0306	DBM Telecommunications Cost	423	61,530.00
0307	Data Processing Communications	-	25,000.00
0397	Paycheck Distribution Costs	15	-
0405	In-State Regular	13,403	15,860.00
0409	Out Of State Travel - Non-Conference	3,220	-
0410	Out Of State Travel - Conference/Seminar	3,030	6,100.00
0415	Training Programs	570	1,937.00
0801	Advertising	2,577,931	2,600,000.00
0811	Bldg. Rep(Work By Outside Cont)	7,558	7,581.00
0822	Duplicating Services	745	-
0833	Equipment Repairs & Services	2,191	-
0838	Software	2,490,225	750,000.00
0839	Software Maintenance	15,287	-
0849	Freight & Expressage	8,840	6,080.00
0850	Litigation Expenses	5,046,580	5,014,247.63
0874	Office Of Attorney Gnal Admin Fee	-	8,140.00
0875	Retirement Admin Fee	6,688	7,435.00
0876	DoIT Service Allocation	-	-
0884	Enterprise Budget System	8,959	8,959.00
0886	In-State Services - Other	874,612	782,271.00
0894	Statewide Personnel System Allocation	14,710	14,710.00
0899	Special Projects	38,978,946	43,974,811.83
0965	Office Supplies	29,300	43,318.00
0974	Reference Books	137	500.00
1060	Personal Computer-Replacement	77,726	-
1180	Personal Computer Equipment	130	-
1193	Office Equipment	150	-
1199	Data Processing Communications	5,099	-
1222	Grants	11,854,472	12,000,000.00
1331	Dues And Memberships	19,312	26,000.00
1332	Insurance Paid To Sto	2,820	2,820.00
1334	Rent (Non-Dgs)	605,999	671,791.00
1336	Subscriptions	11,959	25,568.00
<b>Total Funds D78Y0101</b>		<b>\$ 69,808,702</b>	<b>\$ 73,485,581</b>

**State of Maryland  
Maryland Health Benefit Exchange  
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**Fiscal Year Ending June 30, 2016**

Obj	Agency Object	FY16 Actual w/ Enc.	FY16 Approp (*)
<b>D78Y0101 TOTALS</b>			
	General Funds	\$ 10,595,822	\$ 10,886,794
	Special Funds	23,098,425	24,854,791.96
	Federal Funds	36,114,456	37,743,995.49
	Reimb Funds	-	-
	<b>Total Funds</b>	<b>\$ 69,808,702</b>	<b>\$ 73,485,581</b>

**D78Y0102 Major Information Technology Projects**

0833	Equipment Repairs	\$ 2,012	\$ -
0838	Software	100,709	-
0886	In- State Other	96,911	-
0899	Special Projects	31,365,847	32,962,449.47
1180	Personal Computer Equipment	12,846	-
1336	Subscriptions	14,880	-
	<b>Total Funds D78Y0102</b>	<b>\$ 31,593,205</b>	<b>\$ 32,962,449</b>

<b>D78Y0102 TOTALS</b>			
	General Funds	\$ -	\$ -
	Special Funds	9,671,920	9,990,643.13
	Federal Funds	21,921,285	22,971,806.34
	Reimb Funds	-	-
	<b>Total Funds</b>	<b>\$ 31,593,205</b>	<b>\$ 32,962,449</b>

**D78Y0103 Maryland Health Insurance Plan**

0280	Special payment Payroll	\$ -	\$ -
0304	Cellular Telephone Services & Equipment	-	-
0899	Special Projects	-	-
0965	Office Supplies	-	-
1180	Personal Computer Equipment	-	-
1193	Office Equipment	-	-
	<b>Total Funds D78Y0103</b>	<b>\$ -</b>	<b>\$ -</b>

<b>D78Y0103 TOTALS</b>			
	General Funds	\$ -	\$ -
	Special Funds	-	-
	Federal Funds	-	-
	Reimb Funds	-	-
	<b>Total Funds</b>	<b>\$ -</b>	<b>\$ -</b>

<b>D78Y01 TOTALS</b>			
	General Funds	\$ 10,595,822	\$ 10,886,794
	Special Funds	32,770,344	34,845,435.08
	Federal Funds	58,035,741	60,715,801.83
	Reimb Funds	-	-
	<b>Total Funds</b>	<b>\$ 101,401,907</b>	<b>\$ 106,448,031</b>

**Summary**

AY16/FY16 Expenditures	\$ 94,995,489
FY16 Encumbrances	6,406,418
<b>FY16 Total expenditures + Encumbrances</b>	<b>\$ 101,401,907</b>