

Independent External Audit Report:  
Financial Audit Findings Report  
Fiscal Year Ended June 30, 2020

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 (State). 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 state agencies. The Maryland State Department of Health (MDH) 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 are the designated recipient of federal grant funding. 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 (GAAP).

### Purpose and Authority

The purpose of the independent audits of State Exchange financial statements and program activities 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. Inherent limitations exist 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 confirm MHBE complied with 45 CFR 155.1200(a)(1) which requires a State Exchange to "keep an accurate accounting of Exchange receipts and expenditures in accordance with generally accepted accounting principles (GAAP)". A separate report will be issued for the programmatic compliance audit.

We audited MHBE expenditures (see Appendix A), which totaled \$75,872,411, for fiscal year 2020, which begins from July 1, 2019 and ends June 30, 2020. MHBE receipts are not included as

part of this audit as the submission of the Maryland State CAFR serves as confirmation that receipts are recorded in accordance with GAAP.

**Generally Accepted Government Auditing Standards Statement**

We conducted this 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 MHBE expenditure process. Hamilton performed analytical procedures on the expenditure population and tested a total of fifty-one (51) samples, including a random sample of forty-five (45) and judgmental sample of six (6) expenditure transactions for Fiscal Year 2020.

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## 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.

### Testing Results

During the course of our audit, we did not identify any deficiencies within our scope that are required to be reported under GAGAS.

## III. STATUS OF PRIOR YEAR AUDIT FINDINGS

### Finding 1: Expenditures – Inadequate Accounting for Operating lease

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

Hamilton noted one transaction during our testing that related to an operating lease with a commencement date of November 1, 2017. The operating lease has a lease term of 5 years and an annual escalation of 2.5%. MHBE accounted for the rent expense based on the rent amount paid and not the monthly average of the total rent cost across the lease term. As MHBE only used half of the space for the first eight months, for calculation purposes, we treated the first eight month as a separate benefit use period, we recalculated the straight-line basis rent for the remaining 52 months of the lease term. As a result of our calculation, MHBE's expenditures for FY2019 were understated by \$28,216 due to the incorrect accounting of rent expenses. We considered this a significant deficiency in MHBE's accounting for the operating lease.

#### **b. Criteria**

45 CFR 155.1200(a) (1) Keep an accurate accounting of Exchange receipts and expenditures in accordance with generally accepted accounting principles (GAAP).

Governmental Accounting Standards – Statement No. 62 of the Governmental Accounting Standards Board - Operating Leases 222. "Normally, rental on an operating lease should be charged to expense/expenditure over the lease term as it becomes payable. If rental payments are not made on a straight-line basis, rental expense/expenditure nevertheless should be recognized on a straight-line basis unless another systematic and rational basis is more representative of the time pattern in which use benefit is derived from the leased property, in which case that basis should be used."

**c. Recommendation:**

MHBE should review its accounting practices with regards to operating leases to ensure compliance with GAAP.

**d. MHBE Response:**

MHBE partially concurs with the finding. MHBE does use the accounting principle to recognize lease expenses during the period in which they are incurred rather than recognizing the monthly average of the total rent cost across the lease term. MHBE has reported its future "*commitments for leasing office space*" per the GAAP Closing Package Schedule F instructions.

MHBE does not concur that this is a significant deficiency due to the GAAP Closing Package instructions for "*Schedule H - Other Assets and Liabilities*" which states "*For these assets or liabilities, which exceed \$100,000 please complete the following schedule.*" The amount noted in the finding of \$28,216 does not meet that threshold.

MHBE will continue to adhere to GASB pronouncements and GAD guidance for financial accounting. When completing future GAAP closing packages, MHBE Finance will consult with Comptroller staff regarding whether the deferred lease expense is a reportable item.

**e. Hamilton's Response:**

We understand the amount of misstatement is not required to be reported to GAD per GAAP Closing Package instruction threshold of \$100,000. However, we must account for the potential noncompliance error when evaluating the impact of the sample deviation on the population. Based on the sample size tested and the number of deviations, we calculated the projected error of the population to be statistically significant and the noncompliance with GAAP is significant to our audit objective, therefore we reported the finding as a significant deficiency, our recommendation remains unchanged.

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

Based on our analysis, by the end of the fiscal year 2020, MHBE should have deferred \$39,528 in rent expense based on a straight-line basis. According to the fiscal year 2020 closing package, MHBE deferred \$39,531 of rent expense. The difference is immaterial. We consider the finding to be resolved.

## IV. CONCLUSION

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

*Hamilton Enterprises LLC*

Greenbelt, Maryland  
April 20, 2021

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V. APPENDIX A

		MHBE		
		FY20 Appropriation		
Obj	Agency Object	FY20 Actual	FY20 Approp (*)	Variance
<b>D78Y0101 Program Direction</b>				
0111	Salaries And Wages	5,395,745.80	5,344,688.00	(51,057.80)
0121	Employer'S Fica	390,602.37	383,615.00	(6,987.37)
0131	Employee'S Retirement System	1,060,121.98	1,083,386.00	23,264.02
0141	Health Insurance	752,144.85	670,322.00	(81,822.85)
0142	Retiree Health Insurance	388,952.86	378,129.00	(10,823.86)
0151	Turnover	2,651.15	(274,244.00)	(276,895.15)
0152	Health Insurance - Comptroller Obj			-
0154	Retiree's Health Insurance - Comptroller Obj			-
0161	Unemployment Insurance Reg	14,531.80	14,968.00	436.20
0162	IWIF	7,757.24	2,144.00	(5,613.24)
0171	Overtime Earnings			-
0174	Unemployment - Comptroller Obj			-
0182	Adjustments	45,507.34		(45,507.34)
0185	Leave Payouts	6,986.81		(6,986.81)
0293	Misc. Contractual Health Insurance			-
0299	Special Pymts		11,786.00	
0301	Postage (Stamps Meter Po Box)	2,005.19	2,337.00	331.81
0304	Cellular Telephone Services & Equipment	26,595.91	25,952.88	(643.03)
0305	Telephone And Toll Services	75,735.97	73,028.00	(2,707.97)
0405	In-State Regular	11,090.88	15,860.00	4,769.12
0409	Out Of State Travel - Non-Conference	4,748.56		(4,748.56)
0410	Out Of State Travel - Conference/Seminar	12,993.34	6,000.00	(6,993.34)
0415	Training Programs	16,651.76	500.00	(16,151.76)
0801	Advertising	3,483,830.65	3,640,000.00	156,169.35
0811	Bldg Rep(Work By Outside Cont)	36,309.95	7,581.00	(28,728.95)
0831	Equipment Rental	26,681.48	25,000.00	(1,681.48)
0838	Software	179.21	125,000.00	124,820.79
0849	Freight & Expressage	2,197.99	8,840.00	6,642.01
0850	Litigation Expenses	2,562.50	58,056.00	55,493.50
0874	Office Of Attorney Gnal Admin Fee	12,123.00	12,123.00	-
0875	Retirement Admin Fee	9,161.00	9,161.00	-
0876	DoIT Service Allocation	16,931.00	33,862.00	16,931.00
0877	Security Services		14,214.00	14,214.00
0880	OAH	209,666.00	209,666.00	-
0886	In-State Services - Other	577,562.66	867,273.00	289,710.34
0894	Statewide Personnel System Allocation	10,538.00	10,538.00	-
0897	Other MD project			-
0898	Other Special Projects	5,137.64		(5,137.64)
0899	Special Projects	16,297,293.00	20,955,147.00	4,657,854.00
0965	Office Supplies	13,211.87	58,116.00	44,904.13
0974	Reference Books	490.81	500.00	9.19
1060	Personal Computer-Replacement			-
1181	Audio Visual Equipment			-
1193	Office Equipment			-
1199	Data Processing Equipment			-
1222	Grants	9,662,633.49	10,000,000.00	337,366.51
1229	Grants Miscellaneous			-
1299		2,259.60		(2,259.60)
1331	Dues And Memberships	23,177.25	31,000.00	7,822.75
1332	Insurance Paid To Sto	21,971.00	19,827.00	(2,144.00)
1334	Rent (Non-Dgs)	822,641.44	826,376.00	3,734.56
1336	Subscriptions	5,886.34	11,959.00	6,072.66
<b>Total Funds D78Y0101</b>		<b>39,457,269.69</b>	<b>44,662,710.88</b>	<b>5,205,441.19</b>



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	<b>D78Y0101 TOTALS</b>			
	General Funds	-	-	
	Special Funds	19,023,258.92	22,477,537.80	3,454,278.88
	Federal Funds	20,434,010.81	22,185,173.08	1,751,162.27
	Reimb Funds	-	-	-
	<b>Total Funds</b>	<b>39,457,269.73</b>	<b>44,662,710.88</b>	<b>5,205,441.15</b>
	General Funds	-	-	
	Special Funds	19,023,258.92	22,477,537.80	3,454,278.88
	Grant Funds	-	-	-
	Medicaid FF	20,434,010.81	22,185,173.08	1,751,162.27
	<b>Total Funds</b>	<b>39,457,269.73</b>	<b>44,662,710.88</b>	<b>5,205,441.15</b>
	<b>D78Y0102 Major Information Technology Projects</b>			
	0811 Bldg Rep(Work By Outside Cont)			-
	0833 Equipment Repairs	5,500.00		
	0838 Software	2,995,715.09	5,377,891.25	2,382,176.16
	0839 MD Think	1,239,555.83		
	0849 Freight & Expressage			
	0877 Security Services	2,354.67		
	0886 In-State Services - Other			
	0899 Special Projects	31,986,473.49	25,388,474.00	(6,597,999.49)
	0965 Office Supplies	1,618.88		
	1060 Personal Computer-Replacement	125,764.86		
	1061 Audio Visual Equipment-Replacement			
	1180 Personal Computer Equipment	239.96	337,500.00	337,260.04
	1181 Audio Visual Equipment			
	1193 Office Equipment			
	1198 Other Equipment			
	1199 Data Processing Equipment	5,159.60		(5,159.60)
	1336 Subscriptions	52,758.93	1,019.00	(51,739.93)
	<b>Total Funds D78Y0102</b>	<b>36,415,141.31</b>	<b>31,104,884.25</b>	<b>(3,935,462.82)</b>
	<b>D78Y0102 TOTALS</b>			
	General Funds		-	-
	Special Funds	12,344,255.02	9,703,489.59	(2,640,765.43)
	Federal Funds	24,070,886.29	21,401,394.66	(2,669,491.63)
	Reimb Funds	-	-	-
	<b>Total Funds</b>	<b>36,415,141.31</b>	<b>31,104,884.25</b>	<b>(5,310,257.06)</b>
	General Funds		-	-
	Special Funds	12,344,255.02	9,703,489.59	(2,640,765.43)
	Grant Funds	-	-	-
	Medicaid FF	24,070,886.29	21,401,394.66	(2,669,491.63)
	<b>Total Funds</b>	<b>36,415,141.31</b>	<b>31,104,884.25</b>	<b>(5,310,257.06)</b>
	<b>D78Y01 TOTALS</b>			
	General Funds	-	-	-
	Special Funds	31,367,513.94	32,181,027.39	813,513.45
	Federal Funds	44,504,897.10	43,586,567.74	(918,329.36)
	Reimb Funds	-	-	-
	<b>Total Funds</b>	<b>75,872,411.04</b>	<b>75,767,595.13</b>	<b>(104,815.91)</b>