

STATE OF CONNECTICUT



*AUDITORS' REPORT
CONNECTICUT HEALTH INSURANCE EXCHANGE
FISCAL YEARS ENDED JUNE 30, 2018 AND 2019*

AUDITORS OF PUBLIC ACCOUNTS
JOHN C. GERAGOSIAN ❖ CLARK J. CHAPIN

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March 1, 2022

EXECUTIVE SUMMARY

In accordance with the provisions of Sections 1-122 and 2-90 of the Connecticut General Statutes, we have audited certain operations of the Connecticut Health Insurance Exchange for the fiscal years ended June 30, 2018 and 2019. Our audit identified internal control deficiencies, instances of noncompliance with laws, regulations, and policies, and a need for improvement in practices and procedures that warrant the attention of management. The significant findings and recommendations are presented below:

<p><u>Page 7</u></p>	<p>The Connecticut Health Insurance Exchange did not report 44 breaches of clients' personally identifiable information to the Auditors of Public Accounts and the State Comptroller. In addition, the exchange did not take sufficient actions to ensure the confidentiality, integrity, and security of client data when one of its contractors incurred 34 of those breaches. The Connecticut Health Insurance Exchange should promptly notify the Auditors of Public Accounts and the State Comptroller of any breach of security, in accordance with Section 4-33a of the General Statutes. The exchange should ensure that sufficient internal controls are in place to safeguard clients' personally identifiable information. (Recommendation 1.)</p>
<p><u>Page 8</u></p>	<p>The exchange's procurement policy is extremely broad and lacks specific criteria to determine appropriate reasons for awarding sole source contracts. The Connecticut Health Insurance Exchange should revise its personal services procurement policy to include specific criteria for awarding sole source contracts. (Recommendation 2.)</p>
<p><u>Page 9</u></p>	<p>The exchange did not comply with purchasing policies on numerous occasions, which included receiving services prior to the approval of four purchase orders for \$946,346. The Connecticut Health Insurance Exchange should strengthen internal controls to ensure compliance with established purchasing policies and procedures. (Recommendation 3.)</p>
<p><u>Page 10</u></p>	<p>The exchange did not promptly submit annual and quarterly reports to the Governor, Auditors of Public Accounts, and legislative Office of Fiscal Analysis as required by Sections 1-123 and 9-612(g)(1) of the General Statutes for fiscal years 2018, 2019, and 2020. The Connecticut Health Insurance Exchange should comply with the reporting requirements in accordance with Sections 1-123 and 9-612(g)(1) of the General Statutes. (Recommendation 4.)</p>

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AUDITORS OF PUBLIC ACCOUNTS

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State Capitol
210 Capitol Avenue
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CLARK J. CHAPIN

March 1, 2022

AUDITORS' REPORT CONNECTICUT HEALTH INSURANCE EXCHANGE FISCAL YEARS ENDED JUNE 30, 2018 AND 2019

We have audited certain operations of the Connecticut Health Insurance Exchange in fulfillment of our duties under Sections 1-122 and 2-90 of the Connecticut General Statutes. The scope of our audit included, but was not necessarily limited to, the fiscal years ended June 30, 2018 and 2019. The objectives of our audit were to:

1. Evaluate the exchange's internal controls over significant management and financial functions;
2. Evaluate the exchange's compliance with policies and procedures internal to the department or promulgated by other state agencies, as well as certain legal provisions; and
3. Evaluate the effectiveness, economy, and efficiency of certain management practices and operations, including certain financial transactions.

Our methodology included reviewing written policies and procedures, financial records, minutes of meetings, and other pertinent documents; interviewing various personnel of the exchange; and testing selected transactions. Our testing was not designed to project to a population unless specifically stated. We obtained an understanding of internal controls that we deemed significant within the context of the audit objectives and assessed whether such controls have been properly designed and placed in operation. We tested certain of those controls to obtain evidence regarding the effectiveness of their design and operation. We also obtained an understanding of legal provisions that are significant within the context of the audit objectives, and we assessed the risk that illegal acts, including fraud, and violations of contracts, grant agreements, or other legal provisions could occur. Based on that risk assessment, we designed and performed procedures to provide reasonable assurance of detecting instances of noncompliance significant to those provisions.

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

The accompanying Résumé of Operations is presented for informational purposes. This information was obtained from various available sources including, but not limited to, the exchange's management and the state's information systems, and was not subjected to the procedures applied in our audit of the exchange. For the areas audited, we:

1. Identified deficiencies in internal controls;
2. Identified apparent non-compliance with laws, regulations, contracts and grant agreements, policies, and procedures; and
3. Identified a need for improvement in management practices and procedures that we deemed to be reportable.

The State Auditors' Findings and Recommendations section of this report presents findings arising from our audit of the exchange.

COMMENTS

FOREWORD

The Connecticut Health Insurance Exchange, which does business as Access Health CT (AHCT), operates under the provisions of Title 38a, Chapter 706c, of the General Statutes. The exchange is a public instrumentality and political subdivision of the state, created to develop and implement a state-based health insurance marketplace in accordance with the federal Patient Protection and Affordable Care Act. Pursuant to Chapter 12 of the General Statutes, the exchange is classified as a quasi-public agency.

The goal of the exchange is to reduce the number of uninsured individuals in Connecticut and assist them and small employers in the procurement of health insurance by offering easily comparable and understandable information. The exchange accomplishes this by operating an online marketplace where individuals, families, and small employers can compare and purchase health insurance from a choice of qualified health plans. The exchange's website also operates as a portal for low-income adults and families to apply for Medicaid and the Children's Health Insurance Program coverage. The exchange had its first open enrollment on October 1, 2013, for the benefit year beginning January 1, 2014.

Board of Directors and Administrative Officials

Pursuant to Section 38a-1081 of the General Statutes, the exchange operates under a 14-member board of directors. The board of directors consists of 11 voting and three nonvoting members. Members of the board of directors as of June 30, 2019, were as follows:

Appointed Members:

Victoria Veltri
Paul Philpott
Grant A. Ritter
Cecilia J. Woods
Robert E. Scalettar
Robert F. Tessier, Vice-Chair
Vacancy
Vacancy

Ex Officio, Voting Members:

Roderick L. Bremby, Commissioner, Department of Social Services
Theodore Doolittle, State Healthcare Advocate, Office of the Healthcare Advocate
Melissa McCaw, Secretary, Office of Policy and Management

Ex Officio, Non-Voting Members:

Andrew Mais, Commissioner, Connecticut Insurance Department
Renee Coleman-Mitchell, Commissioner, Department of Public Health
Miriam Delphin-Rittmon, Ph.D., Commissioner, Department of Mental Health and Addiction Services

Other persons serving during the audited period include Nancy Wyman, Benjamin Barnes, Katharine Wade, and Raul Pino. There were two board vacancies as of June 30, 2019, which have since been filled with the appointments of Steven Hernandez and Charles Klippel.

The chief executive officer is appointed by the board of directors. James Wadleigh was appointed chief executive officer on February 19, 2015. Mr. Wadleigh served as the chief executive officer until April 2018. On June 14, 2018, the board named James Michel interim chief executive officer, and on September 20, 2018 he was appointed chief executive officer.

Significant Legislation

The following notable legislative changes affecting the exchange took effect during the audited period:

- **Public Act 17-2** (Section 164), effective July 1, 2018, established an Office of Health Strategy, and made it the successor to the Connecticut Health Insurance Exchange in administering the all-payer claims database.

Other Examinations

Independent public accountants audited the exchange's financial statements for the years under review. The audits provided opinions that the financial statements present fairly, in all material

respects, the financial position of the Connecticut Health Insurance Exchange in accordance with accounting principles generally accepted in the United States of America.

As an integral part of their financial statement audits, the independent public accountants provided reports on compliance and internal control over financial reporting. These reports disclosed no instances of noncompliance concerning these requirements. The reports on internal control indicated that no material weaknesses in internal control over financial reporting were identified.

RÉSUMÉ OF OPERATIONS

Statement of Revenues, Expenses, and Changes in Net Position

Based on the exchange's audited financial statements, a summary of revenues, expenses, and changes in net position for the audited period and the preceding fiscal year follows:

	Fiscal Year Ended June 30,		
	2019	2018	2017
Operating Revenues:			
Marketplace Assessment	\$ 32,287,139	\$ 31,229,615	\$ 32,139,640
Government Grants and Contracts			1,465,829
Grants			41,000
Miscellaneous Revenue	32,301	29,200	0
Total Revenues	32,319,440	31,258,815	33,646,469
Operating Expenses:			
Wages	6,935,673	6,909,678	7,758,067
Fringe Benefits	2,440,310	2,343,400	2,674,823
Consultants	13,689,760	18,111,518	18,685,426
Maintenance	2,460,513	2,808,419	3,523,209
Administration	1,133,782	1,085,813	1,255,895
Equipment	565,144	662,185	408,033
Travel	62,751	100,772	90,323
Supplies	24,064	14,179	11,302
Depreciation and Amortization	1,957,316	1,949,331	2,057,924
Total Operating Expenses	29,269,313	33,985,295	36,465,002
Net Operating Gain (Loss)	3,050,127	(2,726,480)	(2,818,533)
Non-operating Revenues			
Interest Income	407,614	201,480	73,919
Change in Net Position	3,457,741	(2,525,000)	(2,744,614)
Net Position, Beginning of Year	26,058,054	28,583,054	31,327,668
Net Position, End of Year	\$ 29,515,795	\$ 26,058,054	\$ 28,583,054

Marketplace assessments are the main sources of the exchange’s revenue. The initial development of the state health insurance exchange was funded by federal grants. These grants covered all development, start-up, and operating expenses during the exchange’s first years of operation. Revenue from grant awards has tapered off as the exchange became self-sufficient through marketplace assessments on all health and dental carriers.

Total operating expenses decreased by \$2,479,707 during the fiscal year ended June 30, 2018, primarily due to reductions in expenses for wage and fringe benefits, consulting, depreciation, and maintenance. The depreciation and amortization expense is related to the capitalization of the integrated eligibility system, which was developed by the exchange to determine program eligibility and facilitate enrollment.

Total operating expenses decreased by \$4,715,982 during the fiscal year ended June 30, 2019. The decrease was primarily due to a reduction in consulting expenses.

Statement of Net Position

Based on the exchange’s audited financial statements, a summary of assets, liabilities, and net position for the audited period and the preceding fiscal year follows:

	Fiscal Year Ended June 30,		
	2019	2018	2017
Assets			
Current Assets			
Cash and Cash Equivalents	\$ 28,774,149	\$ 26,011,166	\$ 23,349,254
Accounts and Grants Receivable	37,083	1,413,610	7,094,741
Prepaid Expenses	189,512	205,642	184,038
Total current assets	29,000,744	27,630,418	30,628,033
Noncurrent Assets			
Security Deposit	1,197	1,197	8,653
Capital Assets not Depreciated	466,009	167,320	0
Capital Assets, net of Accumulated Depreciation	4,717,643	5,408,736	7,161,568
Total Noncurrent Assets	5,184,849	5,577,253	7,170,221
Total Assets	34,185,593	33,207,671	37,798,254
Liabilities			
Current Liabilities			
Accounts Payable	119,910	525,664	391,646
Accrued Liabilities	4,026,989	6,014,645	6,522,685
Unearned Revenue	522,899	609,308	2,300,869
Total Current Liabilities	4,669,798	7,149,617	9,215,200
Net Position			
Net Investment in Capital Assets	5,183,652	5,576,056	7,161,568
Unrestricted	24,332,143	20,481,998	21,421,486
Total Net Position	\$ 29,515,795	\$ 26,058,054	\$ 28,583,054

Cash and Cash Equivalents primarily consisted of funds received by the Department of Social Services (DSS) for the reimbursement of development costs as well as marketplace assessments.

Accounts receivable includes amounts owed from DSS and carriers for marketplace assessments. The amount due from DSS reflects its portion of accrued expenses. The exchange does not bill DSS for its portions of the costs until the exchange pays the related expenses.

As of June 30, 2018 and 2019, the exchange had \$ 44.6 million and \$46.2 million invested in software and equipment, respectively. These amounts primarily consisted of the capitalization of software development costs associated with the exchange's integrated eligibility system.

Accounts Payable represented amounts due for consulting and administrative services. Accrued expenses represent the Department of Administrative Services' technology and hosting services, call center services, and amounts owed to DSS for shared services incurred on behalf of the exchange.

STATE AUDITORS' FINDINGS AND RECOMMENDATIONS

Our examination of the records of Connecticut Health Insurance Exchange disclosed the following four recommendations, two of which have been repeated from the previous audit:

Lack of Compliance with Data Protection and Statutory Breach Reporting Requirement

Criteria: Section 4-33a of the General Statutes requires that all quasi-public agencies promptly notify the Auditors of Public Accounts and the State Comptroller of any breach of security.

Title 45 U.S. Code of Federal Regulations (CFR) Part 155 requires state exchanges to protect personally identifiable information with reasonable operational, administrative, technical, and physical safeguards to ensure its confidentiality, integrity, and availability and to prevent unauthorized or inappropriate access. The CFR requires state exchanges to oversee and monitor non-exchange entities and ensure that they comply with the privacy and security standards established and implemented by a state exchange.

Condition: The exchange did not report 44 breaches of clients' personally identifiable information to the Auditors of Public Accounts and the State Comptroller, including one phishing scam which affected 1,100 clients. Additionally, the exchange did not take sufficient actions to ensure the confidentiality, integrity, and security of client data when one of its contractors incurred 34 of those breaches.

Context: The exchange experienced 44 breaches of client data from July 2017 through March 2021. One of the exchange's contractors accounted for 34 breaches. Five other entities were responsible for the remaining ten breaches.

Effect: Breaches of data increase the client's risk of identity theft, medical insurance abuse, and financial fraud. The exchange incurred costs of two-year security monitoring for clients who experienced a breach. The exchange did not comply with Section 4-33a of the General Statutes.

Cause: The exchange was not aware of the breach of security notification requirements of the General Statutes. The exchange did not implement sufficient internal controls to prevent breaches of client data.

Prior Audit Finding: This finding has not been previously reported.

Recommendation: The Connecticut Health Insurance Exchange should promptly notify the Auditors of Public Accounts and the State Comptroller of any breach of security, in accordance with Section 4-33a of the General Statutes.

The exchange should ensure that sufficient internal controls are in place to safeguard clients' personally identifiable information. (See Recommendation 1.)

Agency Response:

“The Exchange recognizes the importance of strong information security controls especially given the sensitive nature of data the Health Insurance Exchange (HIX) systems process and store. The Exchange monitors vendor compliance with security requirements and is implementing additional protocols to monitor compliance and improve vendor security practices. The Exchange requires any vendor causing a breach to cover the cost of two-years of security monitoring for clients who experienced a breach, and requires vendors to maintain sufficient liability insurance in case of a breach.

The Exchange is currently working with two third-party vendors to assist with the implementation of a Risk Management Framework to provide comprehensive visibility and oversight into compliance with information security controls.

The Exchange complies with statutory reporting requirements, and will comply with additional reporting requirements.”

Weakness in Broad Purchasing Policies

Criteria:

Section 38a-1082 of the General Statutes requires the exchange's board of directors to adopt written procedures for acquiring personal services. The exchange's procurement policy allows for the acquisition of goods and services by bid, negotiation, and open market. It also allows sole source procurement if the chief executive officer determines it is appropriate and in the exchange's best interest.

Condition:

The exchange's procurement policy is extremely broad and lacks specific criteria to determine the appropriate reasons for awarding sole source contracts.

Context:

The exchange awarded 158 contracts worth \$25,863,633 during the audited period. We reviewed ten contracts which included four sole source procurements totaling \$1,128,532.

Effect:

The exchange may have missed the opportunity to obtain a lower price and better services through an open, competitive procurement process. In addition, the exchange's sole source awards process denied other vendors the opportunity to bid on contracts.

Cause:

The exchange's written procurement policies lack an objective process with proper controls.

Prior Audit Finding: This finding has been previously reported in the last audit report covering the fiscal years ended June 30, 2016 through 2017.

Recommendation: The Connecticut Health Insurance Exchange should revise its personal services procurement policy to include specific criteria for awarding sole source contracts. (See Recommendation 2.)

Agency Response: “The Exchange complies with its procurement policies. The Exchange’s Board of Directors will review the Procurement policies and Auditors’ recommendation regarding sole source contracts at an upcoming meeting. The Board will then make a decision on revision to the policy regarding awarding sole source contracts and will revise the policy based on this determination.”

Weakness in Purchasing Process

Criteria: The Accounting Policy and Procedure Manual requires a purchase order for all purchases to financially commit funds. The manual requires approval of the purchase order prior to ordering goods or services.

The exchange’s credit card policy limits credit card use to travel except for the purchase of services or goods necessary for business operations in which a credit card is the only acceptable form of payment. The policy requires new vendors to complete IRS Form W-9 when credit card charges exceed \$600. Additionally, the policy requires a purchase order for all credit card purchases greater than \$600.

Condition: A review of 25 expenditures, 15 credit card transactions, and ten contracts revealed that the exchange:

- Received services prior to the approval of four purchase orders for \$946,346.
- Did not ensure that two vendors promptly completed Form W-9. The vendors completed the form 24 months and ten months after the purchase.
- Did not prevent unallowed use of the credit card for five transactions totaling \$9,873.
- Lacked purchase orders for 14 credit card transactions totaling \$19,519.
- Lacked Form W-9 on file for 12 credit card transactions totaling \$15,199.

<i>Context:</i>	The exchange expended \$39,444,596 for non-payroll goods and services during the 2017-2018 and 2018-2019 fiscal years. We reviewed \$6,906,844 in expenditures, \$22,009 in credit card transactions, and \$2,115,112 in contracts for compliance with purchasing policies.
<i>Effect:</i>	There is reduced assurance that funding will be available at the time of payment without the proper commitment of funds. Noncompliance with purchasing policies increases the risk of improper purchases.
<i>Cause:</i>	The exchange did not comply with established purchasing policies and procedures.
<i>Prior Audit Finding:</i>	This finding has not been previously reported.
<i>Recommendation:</i>	The Connecticut Health Insurance Exchange should strengthen internal controls to ensure compliance with established purchasing policies and procedures. (See Recommendation 3.)
<i>Agency Response:</i>	“The Exchange has refined its purchasing processes to ensure compliance with purchasing policies and procedures, and has implemented the use of a new requisition system to prevent irregularities or noncompliance with purchasing policies and procedures. The Exchange will comply with all of its purchasing policies and procedures.”

Lack of Compliance with Statutory Reporting Requirements

<i>Criteria:</i>	<p>Section 1-123(a) of the General Statutes requires the board of directors of each quasi-public agency to annually submit a comprehensive report on agency operations to the Governor and the Auditors of Public Accounts. Sections 1-123(b) and 1-123(c) of the General Statutes requires that the board of directors of each quasi-public agency to submit quarterly reports on spending, revenue, and personnel to the legislative Office of Fiscal Analysis. Section 1-123 sets forth specific information that must be included in these reports.</p> <p>Section 9-612(g)(1) of the General Statutes requires each quasi-public agency to prepare and forward a list of current and prospective state contactors to the State Elections Enforcement Commission. Every month, each quasi-public agency must forward any changes, additions, or deletions to the lists to the commission, not later than the fifteenth day of the month.</p>
<i>Condition:</i>	The exchange did not promptly submit annual and quarterly reports as required by Section 1-123 for fiscal years 2018, 2019, and 2020 to the Governor, Auditors of Public Accounts, and Office of Fiscal Analysis.

The exchange submitted the annual reports in June and August 2021 and the quarterly reports in May and August 2021.

The exchange did not submit monthly lists of current and prospective state contactors to the State Elections Enforcement Commission as required by Section 9-612(g)(1). The exchange submitted an initial list of current and prospective state contractors during July 2021.

Context: We reviewed the exchange’s compliance with eight statutory reporting requirements. The exchange did not comply with two statutory reporting requirements.

Effect: Intended recipients of the reports may not have current information required to make informed decisions regarding the organization’s operations.

Cause: Staffing changes and management oversight contributed to these conditions.

Prior Audit Finding: This finding has been previously reported in the last audit report covering the fiscal years ended June 30, 2016 through 2017.

Recommendation: The Connecticut Health Insurance Exchange should comply with the reporting requirements in accordance with Sections 1-123 and 9-612(g)(1) of the General Statutes. (See Recommendation 4.)

Agency Response: “Certain annual reports and quarterly reports were filed untimely due to staffing changes and oversight resulting from the change. Since December 2020 when identified by the State Auditors, the Exchange has completed filing all required annual and quarterly reports for FY 18, FY 19 and FY 20 with the Governor and the State Auditors pursuant to Connecticut General Statutes § 1-123 (a) and will continue to timely comply with this reporting requirement. The Exchange files copies of its audited financial statements with the State Auditors and other State elected officials for each fiscal year as well.

The Exchange will timely comply with all requirements to submit a monthly list of current and prospective contractors to the State Elections Enforcement Commission.”

RECOMMENDATIONS

Status of Prior Audit Recommendations:

Our prior audit report on the Connecticut Health Insurance Exchange contained five recommendations. Three have been implemented or otherwise resolved and two have been repeated or restated with modifications during the current audit.

- The Connecticut Health Insurance Exchange should revise its procurement policy for contracting personal services to include more specific requirements for awarding sole source contracts. **This recommendation is being repeated. (See Recommendation 2.)**
- The Connecticut Health Insurance Exchange should comply with Section 1-123(a) of the General Statutes. **This recommendation is being repeated. (See Recommendation 4.)**
- The Connecticut Health Insurance Exchange should follow all written employment policies. **This recommendation has been resolved.**
- The Connecticut Health Insurance Exchange should create a records retention schedule and submit it to the Connecticut State Library in accordance with State Library records retention schedule requirements. **This recommendation has been resolved.**
- The Connecticut Health Insurance Exchange should implement all information security control recommendations to comply with Medicare and Medicaid Services Minimum Acceptable Risk Standards for Exchanges and the National Institute of Standards and Technology. **This recommendation has been resolved.**

Current Audit Recommendations:

- 1. The Connecticut Health Insurance Exchange should promptly notify the Auditors of Public Accounts and the State Comptroller of any breach of security, in accordance with Section 4-33a of the General Statutes.**

The exchange should ensure that sufficient internal controls are in place to safeguard clients' personally identifiable information.

Comment:

The exchange did not report 44 breaches of clients' personally identifiable information to the Auditors of Public Accounts and the State Comptroller. In addition, the exchange did not take sufficient actions to ensure the confidentiality, integrity, and security of client data when one of its contractors incurred 34 of those breaches.

- 2. The Connecticut Health Insurance Exchange should revise its personal services procurement policy to include specific criteria for awarding sole source contracts.**

Comment:

The exchange's procurement policy is extremely broad and lacks specific criteria to determine appropriate reasons for awarding sole source contracts.

- 3. The Connecticut Health Insurance Exchange should strengthen internal controls to ensure compliance with established purchasing policies and procedures.**

Comment:

The exchange did not comply with purchasing policies on numerous occasions, which included receiving services prior to the approval of four purchase orders for \$946,346.

- 4. The Connecticut Health Insurance Exchange should comply with the reporting requirements in accordance with Sections 1-123 and 9-612(g)(1) of the General Statutes.**

Comment:

The exchange did not promptly submit annual and quarterly reports to the Governor, Auditors of Public Accounts, and legislative Office of Fiscal Analysis as required by Sections 1-123 and 9-612(g)(1) for fiscal years 2018, 2019, and 2020.

ACKNOWLEDGMENTS

The Auditors of Public Accounts wish to express our appreciation for the courtesies and cooperation extended to our representatives by the personnel of the Connecticut Health Insurance during the course of our examination.

The Auditors of Public Accounts also would like to acknowledge the auditors who contributed to this report:

Lee LeFrancois
Joseph Onion
Kathleen Smith

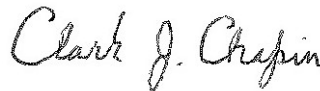


Joseph Onion
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Approved:



John C. Geragosian
State Auditor



Clark J. Chapin
State Auditor