



OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

FINANCIAL AUDIT DIVISION REPORT

MNsure

Federal Compliance Audit

Year Ended June 30, 2015

March 24, 2016

Report 16-08

FINANCIAL AUDIT DIVISION
Centennial Building – Suite 140
658 Cedar Street – Saint Paul, MN 55155
Telephone: 651-296-4708 • Fax: 651-296-4712
Email: legislative.auditor@state.mn.us
Website: <http://www.auditor.leg.state.mn.us>
Through Minnesota Relay: 1-800-627-3529 or 7-1-1

Financial Audit Division

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Conclusion on Internal Controls

The Financial Audit Division bases its conclusion about an organization's internal controls on the number and nature of the control weaknesses we found in the audit. The three possible conclusions are as follows:

Conclusion	Characteristics
Adequate	The organization designed and implemented internal controls that effectively managed the risks related to its financial operations.
Generally Adequate	With some exceptions, the organization designed and implemented internal controls that effectively managed the risks related to its financial operations.
Not Adequate	The organization had significant weaknesses in the design and/or implementation of its internal controls and, as a result, the organization was unable to effectively manage the risks related to its financial operations.



OFFICE OF THE LEGISLATIVE AUDITOR

STATE OF MINNESOTA • James Nobles, Legislative Auditor

March 24, 2016

Representative Sondra Erickson, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Allison O'Toole, Chief Executive Officer
MNSure

This report presents the results of our audit of the federal grants awarded to Minnesota to establish its state-based health insurance exchange administered by MNSure during fiscal year 2015. We conducted this audit as part of our audit of the state's compliance with federal program requirements. We emphasize that this was not a comprehensive audit of MNSure.

We discussed the results of the audit with MNSure's staff on March 11, 2016. This audit was conducted by Tracy Gebhard, CPA (Audit Director); and Valentina Stone, CPA (Auditor-in-Charge).

We received the full cooperation of the board's staff while performing this audit.

Handwritten signature of James R. Nobles in black ink.

James R. Nobles
Legislative Auditor

Handwritten signature of Cecile M. Ferkul in black ink.

Cecile M. Ferkul, CPA, CISA
Deputy Legislative Auditor

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Report Summary

Conclusion

MNsure generally complied with and had controls to ensure compliance with certain provisions of laws, regulations, contracts, and grants applicable to its major federal program for fiscal year 2015. However, the board had some noncompliance, as noted in the findings presented in this report.

Audit Findings

- MNsure incorrectly used federal money to pay approximately \$98,000 for software maintenance fees not allowable under the grant. (Finding 1, page 5)
- MNsure did not maintain complete and accurate inventory records of equipment purchased. This is a repeat finding.¹ (Finding 2, page 6)
- MNsure did not have adequate controls to ensure its employees or direct supervisors certified the accuracy of employee payroll time reporting. This is a repeat finding.² (Finding 3, page 9)

Audit Scope

Our scope included one federal program administered by MNsure, the State Planning and Establishment Grants for the Affordable Care Act's Exchanges Program. The federal government describes the purpose of this program to "provide assistance for activities related to establishing a health insurance exchange that facilitates the purchase of qualified health plans, provides for the establishment of a Small Business Health Options Program" The fiscal year 2015 federal expenditures for this program totaled about \$48 million.³

¹ Office of the Legislative Auditor, Financial Audit Division Report 14-21, *Minnesota Health Insurance Exchange: MNsure* (Finding 4) issued October 28, 2014.

² Office of the Legislative Auditor, Financial Audit Division Report 14-21, *Minnesota Health Insurance Exchange: MNsure* (Finding 5) issued October 28, 2014.

³ Federal grant award numbers for the State Planning and Establishment Grants for the Affordable Care Act's Exchanges Program: 4 HBEIE120176-01-10, 4 HBEIE120177-01-11, 4 HBEIE130163-01-18, and 4 HBEIE140181-01-12.

MNsure⁴

Federal Program Overview

MNsure administered one federal program (State Planning and Establishment Grants for the Affordable Care Act's Exchanges Program, CFDA 93.525),⁵ that we considered a major federal program for the State of Minnesota, subject to audit under the federal Single Audit Act.⁶ The federal government describes the purpose of this program to "provide assistance for activities related to establishing a Health Insurance Exchange that facilitates the purchase of qualified health plans, provides for the establishment of a Small Business Health Options Program (SHOP Exchange), and meets the requirements set forth by the Secretary [of Health and Human Services] and the Affordable Care Act."⁷ The fiscal year 2015 federal expenditures for this program totaled about \$48 million.⁸

During a 2014 site visit, representatives from the Center for Medicare and Medicaid Services' Center for Consumer Information and Insurance Oversight⁹ noticed significant remodeling activity at MNsure. The federal representatives questioned whether the remodeling costs were allowable uses of federal grant money received through the State Planning and Establishment Grants for the Affordable Care Act's Exchanges Program. Since the site visit, MNsure received several drafts of the report related to the site visit; each report included a finding that these costs (approximately \$516,000) were unallowable. MNsure received the latest draft report in February 2016. As of March 2, 2016, MNsure had not received instructions about how to return the federal grant money used to pay for the unallowable costs.¹⁰

⁴ MNsure describes itself as a "marketplace where Minnesotans can shop, compare, and choose health insurance coverage that meets their needs." MNsure is the only place where consumers can qualify for financial help either through federal tax credits or public health care programs, such as Medical Assistance.

⁵ The Catalog of Federal Domestic Assistance (CFDA) is a unique number assigned by the federal government to identify its programs.

⁶ We defined a major federal program for the State of Minnesota in accordance with a formula prescribed by the federal Office of Management and Budget as a program whose expenditures for fiscal year 2015 exceeded \$30 million.

⁷ <https://www.cfda.gov/programs/93.525>

⁸ Federal grant award numbers for the State Planning and Establishment Grants for the Affordable Care Act's Exchanges Program: 4 HBEIE120176-01-10, 4 HBEIE120177-01-11, 4 HBEIE130163-01-18, and 4 HBEIE140181-01-12.

⁹ The Center for Consumer Information and Insurance Oversight (within the Center for Medicare and Medicaid Services) is charged with helping implement many reforms of the Affordable Care Act. The center oversees the implementation of the provisions related to private health insurance. In particular, the center works with states to establish new Health Insurance Marketplaces.

¹⁰ Possible repayment methods could include a return of the money to the federal government as a one time payment, installment payments over a period of years, or an offset against future draws of federal money.

Objective, Scope, and Methodology

The objective of our audit was to determine whether MNSure complied with federal program requirements in its administration of this federal program for fiscal year 2015 and to determine whether MNSure had resolved issues from the previous audit.¹¹ This audit is part of our broader federal single audit objective to obtain reasonable assurance about whether the State of Minnesota complied with the types of compliance requirements that are applicable to each of its federal programs.¹² In addition to specific program requirements, we examined MNSure's compliance with general requirements related to federal assistance, including its cash management practices.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the *Government Auditing Standards*, issued by the Comptroller General of the United States of America and with the U.S. Office of Management and Budget's *Circular A-133 Compliance Supplement*.

Conclusion

MNSure generally complied with and had controls to ensure compliance with certain provisions of laws, regulations, contracts, and grants applicable to its major federal program for fiscal year 2015. However, the board had some noncompliance, as noted in the following *Findings and Recommendations* section.

We will report these weaknesses and noncompliance to the federal government in the *Minnesota Financial and Compliance Report on Federally Assisted Programs*, prepared by the Department of Management and Budget. This report provides the federal government with information about the state's use of federal funds and its compliance with federal program requirements. The report includes the results of our audit work, conclusions on the state's internal controls over and compliance with federal programs, and findings about control and compliance weaknesses.

¹¹ Office of the Legislative Auditor, Financial Audit Division Report 14-21, *Minnesota Health Insurance Exchange: MNSure*, issued October 28, 2014.

¹² The State of Minnesota's single audit is an entity audit of the state that includes both the financial statements and the expenditures of federal awards by all state agencies. We issued an unqualified audit opinion, dated December 11, 2015, on the State of Minnesota's basic financial statements for the year ended June 30, 2015. In accordance with *Government Auditing Standards*, we also issued our report on our consideration of the State of Minnesota's internal controls over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts, and grants. (Office of the Legislative Auditor's Financial Audit Division Report 16-05, *Report on Internal Controls Over Statewide Financial Reporting*, issued February 11, 2016.)

Findings and Recommendations

MNsire incorrectly used federal money to pay approximately \$98,000 for software maintenance fees not allowable under the grant.

Finding 1

In April 2015, MNsure paid for annual software maintenance services for software it initially purchased two years before. MNsure incorrectly used money from the State Planning and Establishment Grants for the Affordable Care Act's Exchanges Program (CFDA 93.525) to pay about \$98,000 of the cost of the software maintenance services.¹³ Federal requirements, effective January 1, 2015, prohibited the use of money from this grant to pay for continued maintenance and operations of MNsure.¹⁴

Notes on the documentation we examined for this payment erroneously linked it to a purchase order set up in the state's accounting system to be charged to this federal grant. The documentation did not show who noted the wrong purchase order and lacked an authorization to make the payment. Without authorization, the payment should not have occurred.

MNsire staff we talked to were aware of the change in federal requirements and believed that this was an isolated error.¹⁵ However, they were unable to identify who linked the payment to the wrong purchase order or how the payment occurred without authorization. Authorization is an important internal control to ensure the appropriate use of federal grant money.

Recommendations

- *MNsire should work with the federal government to resolve its use of approximately \$98,000 in federal money for unallowable activities.*
- *MNsire should monitor the effectiveness of its controls to ensure only allowable activities are paid using federal money.*

¹³ The Department of Humans Services paid for the remaining \$109,300 for the software maintenance services with both state and federal money.

¹⁴ 42 USC, sec. 18031, (d), (5), (A).

¹⁵ We performed additional analysis in response to this error and did not identify any other unauthorized payments or use of money from this grant for unallowable operational costs.

Finding 2

MNSure did not maintain complete and accurate inventory records of equipment purchased. This is a repeat finding.¹⁶

In February 2016, MNSure management confirmed to us that they had not implemented our October 2014 recommendation to maintain complete and accurate inventory records for over \$5 million of equipment purchased with money from its State Planning and Establishment Grants for the Affordable Care Act's Exchanges Program (CFDA 93.525).¹⁷ In fiscal year 2015, MNSure used about \$726,000 for equipment purchases with federal money from this grant.

In our prior audit report, we noted that MNSure had not updated its inventory records with specific equipment identification and location information. In addition, MNSure did not ensure its inventory records included all equipment MNSure purchased and equipment purchased by other state agencies for the exchange.

Federal regulations require that, "*A state must use, manage, and dispose of equipment acquired under a federal award by the state in accordance with state laws and procedures.*"¹⁸ The State of Minnesota's Property Management Policy and User Guide defines "equipment" as having a useful life of two or more years with an acquisition cost of \$5,000 or more. The guide indicates the Asset Management Module in the state's accounting system is the official record for all capital assets, and requires agencies to assign asset identification numbers and identify location information for physical inventory at least every two years. MNSure Board Policy #7 further requires a "*... written inventory of all physical assets and supplies, and updates the same periodically through a physical inventory.*"

Without a complete and accurate record, MNSure cannot adequately control equipment under its responsibility and has increased the risk that assets could be lost or stolen without detection.

Recommendation

- *MNSure should improve inventory records necessary to safeguard equipment by updating specific equipment identification and location information needed to conduct a physical inventory. MNSure should also ensure its inventory records include all equipment purchased for the exchange, including equipment purchased by other state agencies.*

¹⁶ Office of the Legislative Auditor, Financial Audit Division Report 14-21, *Minnesota Health Insurance Exchange: MNSure* (Finding 4) issued October 28, 2014.

¹⁷ *Ibid.*

¹⁸ Title 2 Code of Federal Regulations 200.313 (b).

MNsure did not have adequate controls to ensure its employees or direct supervisors certified the accuracy of employee payroll time reporting. This is a repeat finding.¹⁹

Finding 3

MNsure did not effectively use the state's automated time reporting system to ensure that payroll costs paid with federal money (totaling approximately \$9.5 million for fiscal year 2015) were for work related to the State Planning and Establishment Grants for the Affordable Care Act's Exchanges Program (CFDA 93.525). Federal requirements state:

“Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee.”²⁰

MNsure used employee timesheets completed and approved through the state's automated time reporting system as certifications that employees worked solely on the federal program. When used in accordance with state payroll policies, the state's automated time reporting system can provide good internal controls to ensure the integrity of employees' payroll information. The policy states that the best control is achieved *“when employees prepare their own timesheets and supervisors, who have direct knowledge of employees' work, review and approve timesheets.”²¹*

To monitor the effectiveness of the control, state policy requires agencies to perform a comprehensive review of the automated time reporting system's time entry audit report available each pay period, follow up on each of these exceptions, and verify with the employee and/or primary supervisor the accuracy of the timesheet.²² We found that the report was generated, but we saw no evidence that MNsure staff had reviewed the report and followed up on the exceptions noted. If MNsure had used the report effectively, it could have met the federal requirements for payroll costs charged to federal grants.

Since MNsure did not review the report, we conducted a review of 1,648 employees' timesheets completed during ten pay periods in fiscal year 2015. Our

¹⁹ Office of the Legislative Auditor, Financial Audit Division Report 14-21, *Minnesota Health Insurance Exchange: MNsure* (Finding 5) issued October 28, 2014.

²⁰ Office of Management and Budget Circular A-87, Attachment B, Section 8, h, (3).

²¹ Department of Management and Budget Policy PAY0017 - Self Service Time Entry.

²² Department of Management and Budget Policy PAY0017 – Self Service Time Entry.

review identified the following deviations from internal controls in the use of the state's automated time reporting system:

- About 18 percent of the timesheets we tested were not completed by the employees themselves; instead, supervisors completed the employees' timesheets. The prevalence of supervisors completing employees' timesheets weakens the integrity of the automated time reporting system since employees are best able to identify the hours they worked each day.
- About 11 percent of the timesheets we tested were not approved by a supervisor "having first-hand knowledge of the work performed by the employee." Instead, the timesheets were approved by backup supervisors.

By not following state policy for the use of the state's automated time reporting system and not following federal policy, MNsure increased the risk that it charged the federal government for employee payroll costs not related to the federal program.

Recommendation

- *To comply with federal requirements, MNsure should strengthen its internal controls over payroll expenditures by using the state's automated time reporting system in compliance with state policies.*
-



March 17, 2016

James Nobles
Legislative Auditor
Centennial Office Building, Room 140
658 Cedar Street
St. Paul, Minnesota 55115

Dear Mr. Nobles:

Thank you for the opportunity to review and respond to the findings and recommendations included in the draft Financial Audit Division Report “MNSure Federal Compliance Audit Year Ended June 30, 2015.” We are pleased that this report found MNSure has generally complied with and had controls to ensure compliance with federal laws and regulations applicable to its major federal program. We appreciate the professionalism shown by your staff throughout this audit. As you know, we welcome your review and view it as part of an ongoing process of improvement for the organization. MNSure’s response to the specific findings is attached.

Since the beginning of the first open enrollment on October 1, 2013, more than 700,000 Minnesotans have used the Minnesota Eligibility Technology System (METS) to apply for health insurance coverage. Now, 96% of Minnesotans have health insurance coverage. Between 2013 and 2015, 200,000 more Minnesotans gained health insurance coverage. Minnesotans are also saving money. Since 2014, Minnesotans have saved more than \$80 million through tax credits, thanks to financial help only available through MNSure.

MNSure also has made dramatic improvements to the consumer experience. We recently completed our third open enrollment period. During that time, MNSure consumers continued to see strong, steady improvements. Evidence of this includes:

- We exceeded our enrollment goal and enrolled 85,390 consumers in qualified health plans (QHP).
- MNSure led the nation with the highest percentage of new enrollees.
- More than half of our QHP enrollees are new to MNSure this year.
- Consumers’ Checkbook—an online plan comparison tool—was added to MNSure.org to help consumers get a better picture of the costs of coverage and make more informed decisions.
- Call volume remained high, yet 95% of calls were answered in five minutes or less.
- Nearly 2,000 navigators, brokers and other assisters statewide were in place to help consumers enroll.
- We have a strong, multi-agency project management team and decision-making process in place to set priorities.



- We have a deep commitment to transparency and accountability.
- We are listening, and our partners and stakeholders are informed and engaged with us as we continue to grow and improve.

The work to improve MNsure not only includes this organization, but also the dedicated staff at the Minnesota Department of Human Services (DHS) and the Office of MN.IT Services. We are grateful for their partnership and look forward to continuing our work together.

We continue to take our responsibility to be an accountable and transparent organization seriously. We have been working as an organization since early 2014 to proactively identify and make improvements to all areas of MNsure, including those documented in various state and federal audit reports completed on MNsure.

Audits such as this one are important tools for us to improve. In the interest of transparency and accountability, we will continue to make necessary adjustments to the organization, while maintaining our focus on improving the consumer experience.

Sincerely,

A handwritten signature in black ink that reads "Allison O'Toole". The signature is written in a cursive, flowing style.

Allison O'Toole
Chief Executive Officer

MNsure's Responses

OLA Finding 1

MNsure incorrectly used federal money to pay approximately \$98,000 for software maintenance fees not allowable under the grant.

OLA Recommendations

- MNsure should work with the federal government to resolve its use of approximately \$98,000 in federal money for unallowable activities;
- MNsure should monitor the effectiveness of its controls to ensure only allowable activities are paid using federal money.

MNsure's Response to OLA Finding 1

MNsure agrees with this finding and notes that additional audit testing confirmed this to be an isolated incident. The payment was made to the correct vendor but against an incorrect purchase order. This error has been resolved through the completion of an expenditure correction in SWIFT to ensure that the payment reflects the correct funding. The correction restores the expenditure charged against the federal grant. We have implemented internal controls that ensure all vendor invoices are authorized by a staff member with direct knowledge of services provided, significantly reducing the risk that this type of an error will reoccur.

Status: Complete.

Responsible Persons: Kari Koob, Chief Financial Officer

OLA Finding 2

MNsure did not maintain complete and accurate inventory records of equipment purchased for the Exchange. This is a repeat finding.

OLA Recommendations

- MNsure should improve inventory records necessary to safeguard equipment by updating specific equipment identification and location information needed to conduct a physical inventory. MNsure should also ensure its inventory records include all equipment purchased for the exchange, including equipment purchased by other state agencies.

MNsure's Response to OLA Finding 2

MNsure agrees with this finding. The creation of a fixed asset register in SWIFT is a significant undertaking, given the large number of assets purchased during the creation of the marketplace. Over the past year, MNsure and DHS have been reviewing this issue in an attempt to identify a resolution that will be efficient and allow for compliance with state policy going forward. MNsure and DHS continue these efforts.

Status: In process. Estimated completion date is June 30, 2017.

Responsible Person: Kari Koob, Chief Financial Officer

OLA Finding 3

MNsure did not have adequate controls to ensure its employees or direct supervisors certified the accuracy of employee payroll time reporting. This is a repeat finding.

OLA Recommendations

- To comply with federal requirements, MNsure should strengthen its internal controls over payroll expenditures by using the state's automated time reporting system in compliance with state policies.

MNsure's Response to OLA Finding 3

MNsure agrees with this finding. A comparison of this report to your previous one indicates significant improvements in this area. Timesheets completed by supervisors for staff under their supervision decreased from 28% to 18%. Timesheets approved by backup approvers decreased from 19% to 11%.

We believe actions taken over the past year have significantly mitigated the risk in this area. For example, we have reviewed and adjusted access controls in SEMA4 to further limit intervention to staff who are directly knowledgeable of an employee's work schedule. On each timesheet day, MNsure staff (including supervisors) receive reminders about appropriate documentation where an employee's timesheet is completed by a supervisor or approved by a backup approver.

Additionally, effective January 2016, MNsure payroll reports are now reviewed bi-weekly by DHS staff and we have implemented a procedure to improve our use of SEMA4's time entry audit report. We believe these measures will result in a further reduction in the reported uses of these two exceptions.

Status: Complete.

Responsible Persons: Kari Koob, Chief Financial Officer