

Department of Health and Human Services

**OFFICE OF  
INSPECTOR GENERAL**

**THE KENTUCKY MARKETPLACE'S  
INTERNAL CONTROLS WERE  
GENERALLY EFFECTIVE IN ENSURING  
THAT INDIVIDUALS WERE ENROLLED  
IN QUALIFIED HEALTH PLANS  
ACCORDING TO FEDERAL  
REQUIREMENTS**

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# ***Office of Inspector General***

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## **EXECUTIVE SUMMARY**

*The Kentucky marketplace's internal controls were generally effective in ensuring that individuals were enrolled in qualified health plans according to Federal requirements. However, we identified deficiencies with maintenance of identity-proofing documentation, verification of eligibility for minimum essential coverage, and treatment of inconsistency resolutions.*

### **WHY WE DID THIS REVIEW**

The Patient Protection and Affordable Care Act (ACA) requires the establishment of a health insurance exchange (marketplace) in each State and the District of Columbia. A marketplace is designed to serve as a “one-stop shop” at which individuals get information about their health insurance options; are evaluated for eligibility for a qualified health plan (QHP) and, when applicable, eligibility for insurance affordability programs; and enroll in the QHP of their choice. As of October 1, 2013, Kentucky was 1 of 15 States that had established State-based marketplaces (State marketplaces).

A previous Office of Inspector General review found that not all internal controls implemented by the federally facilitated marketplace (Federal marketplace) and the State marketplaces in California, Connecticut, and New York were effective in ensuring that individuals were enrolled in QHPs according to Federal requirements. This review of the Kentucky Health Benefit Exchange (Kentucky marketplace) is part of an ongoing series of reviews of seven State marketplaces across the Nation. We selected the individual State marketplaces to cover States in different parts of the country. Our nationwide audit of State marketplace eligibility determinations is part of a larger body of ACA work, which also includes audits of how costs incurred to create State marketplaces were allocated to establishment grants.

Our objective was to determine whether the Kentucky marketplace’s internal controls were effective in ensuring that individuals were enrolled in QHPs according to Federal requirements.

### **BACKGROUND**

#### **Qualified Health Plans and Insurance Affordability Programs**

QHPs are private health insurance plans that each marketplace recognizes and certifies as meeting certain participation standards and covering a core set of benefits. To lower individuals’ insurance premiums or out-of-pocket costs for QHPs, the ACA provides for two types of insurance affordability programs: the premium tax credit and cost-sharing reductions. The premium tax credit reduces the cost of a plan’s premium and is available at tax filing time or in advance. When paid in advance, the credit is referred to as the “advance premium tax credit.” Cost-sharing reductions help individuals with out-of-pocket costs, such as deductibles, coinsurance, and copayments. Depending on an individual’s income, he or she may be eligible for either or both types of insurance affordability programs.

To be eligible to enroll in a QHP, an individual must be a U.S. citizen, a U.S. national, or lawfully present in the United States; not be incarcerated; and meet applicable residency standards. To be eligible for insurance affordability programs, the individual must meet additional requirements for annual household income. Additionally, an individual is not eligible for these programs if he or she is eligible for minimum essential coverage that is not offered through a marketplace. Minimum essential coverage consists of employer-sponsored and non-employer-sponsored insurance. The latter includes Government programs (such as Medicare and Medicaid), grandfathered plans, and other plans.

### **Application and Enrollment Process for Qualified Health Plans and Insurance Affordability Programs for All Marketplaces**

An applicant may submit an application to enroll in a QHP during an open enrollment period. An applicant may also enroll in a QHP during a special enrollment period outside of the open enrollment period if the applicant experiences certain life changes, such as marriage or the birth of a child.

To enroll in a QHP, an applicant must complete an application and meet eligibility requirements defined by the ACA. An applicant can enroll in a QHP through the Federal or a State marketplace, depending on the applicant's State of residence. Applicants can enroll through a Web site, by phone, by mail, in person, or directly with a broker or an agent of a health insurance company. For online and phone applications, the marketplace verifies the applicant's identity through an identity-proofing process. For paper applications, the marketplace requires the applicant's signature before the marketplace processes the application. When completing any type of application, the applicant attests that answers to all questions are true and that the applicant is subject to the penalty of perjury.

After reviewing the applicant's information, the marketplace determines whether the applicant is eligible for a QHP and, when applicable, eligible for insurance affordability programs. To verify the information submitted by the applicant, the marketplace uses multiple electronic data sources, including sources available through the Federal Data Services Hub (Data Hub). The data sources available through the Data Hub are the U.S. Department of Health and Human Services, the Social Security Administration, the U.S. Department of Homeland Security, and the Internal Revenue Service, among others. If the marketplace determines that the applicant is eligible to enroll in a QHP, the applicant selects a QHP, and the marketplace transmits the enrollment information to the insurance company, i.e., the QHP issuer.

Generally, when a marketplace cannot verify information that the applicant submitted or the information is inconsistent with information available through the Data Hub or other sources, the marketplace must attempt to resolve the inconsistency. If the marketplace is unable to resolve an inconsistency through reasonable efforts, it must generally provide the applicant 90 days to submit satisfactory documentation or otherwise resolve the inconsistency. (This 90-day period is referred to as "the inconsistency period.") The marketplace may extend the inconsistency period if the applicant demonstrates that a good-faith effort has been made to obtain required documentation. During the inconsistency period, the applicant may still enroll in a QHP and, when applicable, may choose to receive the advance premium tax credit and cost-sharing

reductions. After the inconsistency period, if the marketplace is unable to resolve the inconsistency, it determines the applicant's eligibility on the basis of available data sources and, in certain circumstances, the applicant's attestation.

## **HOW WE CONDUCTED THIS REVIEW**

We reviewed the internal controls that were in place at the Kentucky marketplace during the open enrollment period for insurance coverage effective in calendar year 2014 (October 1, 2013, through March 31, 2014). We performed an internal control review because it enabled us to evaluate the effectiveness and efficiency of the Kentucky marketplace's operations and compliance with applicable Federal requirements.

We limited our review to those internal controls related to (1) verifying applicants' identities, (2) determining applicants' eligibility for enrollment in QHPs and eligibility for insurance affordability programs, and (3) maintaining and updating eligibility and enrollment data. To determine the effectiveness of the internal controls, we (1) reviewed a sample of 45 applicants randomly selected from applicants who enrolled in QHPs during the open enrollment period (a total of 76,225 applicants), which included the review of supporting documentation to evaluate whether the marketplace determined the applicants' eligibility in accordance with Federal requirements, and (2) performed other audit procedures, which included interviews with marketplace management, staff, and contractors; observation of staff performing tasks related to eligibility determinations; and reviews of supporting documentation and enrollment records. Because our review was designed to provide only reasonable assurance that the internal controls we reviewed were effective, it would not necessarily have detected all internal control deficiencies.

## **WHAT WE FOUND**

The Kentucky marketplace's internal controls were generally effective in ensuring that individuals were enrolled in QHPs according to Federal requirements. On the basis of our review of 45 sample applicants from the enrollment period for insurance coverage effective in calendar year 2014, we determined that certain internal controls were effective, such as the controls for verifying applicants' incarceration status. However, on the basis of our sample review and performing other audit procedures, such as interviewing marketplace officials and reviewing supporting documentation, we determined that other controls were not effective. Specifically, the Kentucky marketplace did not always (1) maintain identity-proofing verification documentation (four sample applicants); (2) verify applicants' eligibility for minimum essential coverage (two sample applicants); or (3) notify applicants of, or resolve, inconsistencies in eligibility data (two sample applicants).

The presence of an internal control deficiency does not necessarily mean that the Kentucky marketplace improperly enrolled an applicant in a QHP or improperly determined eligibility for insurance affordability programs. Other mechanisms exist that may remedy the internal control deficiency, such as the resolution process during the inconsistency period. For example, although the Kentucky marketplace did not have a control in place to verify an applicant's

citizenship when the Data Hub returned a system error, the marketplace may still have been able to verify citizenship with satisfactory documentation provided by the applicant.

The deficiencies that we identified occurred because the Kentucky marketplace did not (1) ensure that it maintained identity-proofing documentation or (2) design its enrollment system, in case initial data verification failed, to ensure that further data validation would occur or an inconsistency would be identified and resolved timely.

## **WHAT WE RECOMMEND**

We recommend that the Kentucky marketplace:

- maintain identity-proofing documentation for applicants who apply for QHPs and
- improve the design of its enrollment system to ensure that it identifies and resolves all inconsistencies in eligibility data and determines an applicant's eligibility on the basis of available electronic data sources, as appropriate.

## **KENTUCKY MARKETPLACE COMMENTS**

Kentucky marketplace officials concurred with all of our findings and recommendations and provided information on actions that they had taken to address our recommendations.

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## INTRODUCTION

### WHY WE DID THIS REVIEW

The Patient Protection and Affordable Care Act (ACA)<sup>1</sup> requires the establishment of a health insurance exchange (marketplace) in each State and the District of Columbia. A marketplace is designed to serve as a “one-stop shop” at which individuals get information about their health insurance options; are evaluated for eligibility for a qualified health plan (QHP) and, when applicable, eligibility for insurance affordability programs; and enroll in the QHP of their choice.<sup>2</sup> As of October 1, 2013, Kentucky was 1 of 15 States that had established State-based marketplaces (State marketplaces).

A previous Office of Inspector General (OIG) review, found that not all internal controls implemented by the federally facilitated marketplace (Federal marketplace) and the State marketplaces in California, Connecticut, and New York were effective in ensuring that individuals were enrolled in QHPs according to Federal requirements (A-09-14-01000, issued June 30, 2014).<sup>3</sup> This review of the Kentucky Health Benefit Exchange (Kentucky marketplace) is part of an ongoing series of reviews of seven State marketplaces across the Nation.<sup>4</sup> We selected the individual State marketplaces to cover States in different parts of the country.

This report, in part, responds to a Congressional request for information on how State marketplaces use the Internal Revenue Service’s (IRS) household income data and self-reported, third-party, and other income data in eligibility determinations.

Our nationwide audit of State marketplace eligibility determinations is part of a larger body of ACA work, which also includes audits of how costs incurred to create State marketplaces were allocated to establishment grants. See “Affordable Care Act Reviews” on the OIG Web site for a list of related OIG reports on marketplace operations.<sup>5</sup>

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<sup>1</sup> P.L. No. 111-148 (March 23, 2010), as amended by the Health Care and Education Reconciliation Act of 2010, P.L. No. 111-152 (March 30, 2010).

<sup>2</sup> An individual is considered to be enrolled in a QHP when he or she has been determined eligible and has paid the first monthly insurance premium. An individual may also obtain information from a marketplace about Medicaid and the Children’s Health Insurance Program (CHIP) (ACA § 1413 and 45 CFR § 155.405).

<sup>3</sup> Our previous review covered the internal controls in place during the first 3 months of the open enrollment period for applicants enrolling in QHPs (October to December 2013).

<sup>4</sup> The other six State marketplaces we reviewed were Colorado, the District of Columbia, Minnesota, New York, Vermont, and Washington.

<sup>5</sup> <http://oig.hhs.gov/reports-and-publications/aca/>.

## **OBJECTIVE**

Our objective was to determine whether the Kentucky marketplace's internal controls were effective in ensuring that individuals were enrolled in QHPs according to Federal requirements.

## **BACKGROUND**

### **Patient Protection and Affordable Care Act**

The ACA established marketplaces to allow individuals and small businesses to shop for health insurance in all 50 States and the District of Columbia.<sup>6</sup> A goal of the ACA is to provide more Americans with access to affordable health care by, for example, providing financial assistance through insurance affordability programs for people who could not afford insurance without it.

### **Health Insurance Marketplaces**

The three types of marketplaces operational as of October 1, 2013, were the Federal, State, and State-partnership marketplaces:

- **Federal marketplace:** The Department of Health and Human Services (HHS) operates the Federal marketplace in States that did not establish their own marketplaces. Individuals in these States enroll in QHPs through the Federal marketplace.
- **State marketplace:** A State may establish and operate its own marketplace. A State marketplace may use Federal services (e.g., the system that provides Federal data) to assist with certain functions, such as eligibility determinations for insurance affordability programs.
- **State-partnership marketplace:** A State may establish a State-partnership marketplace, in which HHS and a State share responsibilities for core functions. For example, HHS may perform certain functions, such as eligibility determinations, and the State may perform other functions, such as insurance plan management and consumer outreach. A key distinction between a State-partnership and State marketplace is that the former uses the Federal marketplace Web site (HealthCare.gov) to enroll individuals in QHPs, and the latter uses its own Web site for that purpose.

As of October 1, 2013, 36 States, including 7 State-partnership marketplaces, used the Federal marketplace, and 15 States, including the District of Columbia, had established State marketplaces. During our audit period, these were the types of marketplaces approved by the Centers for Medicare & Medicaid Services (CMS).

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<sup>6</sup> Each State can have an individual marketplace and a Small Business Health Options Program (SHOP) marketplace, which enables small businesses to access health coverage for their employees. This report does not cover applicants who enrolled in QHPs through Kentucky's SHOP marketplace.

## **Qualified Health Plans and Insurance Affordability Programs**

### *Qualified Health Plans*

QHPs are private health insurance plans that each marketplace recognizes and certifies as meeting certain participation standards. QHPs are required to cover a core set of benefits (known as essential health benefits). QHPs are classified into “metal” levels: bronze, silver, gold, and platinum.<sup>7</sup> These levels are determined by the percentage that each QHP expects to pay, on average, for the total allowable costs of providing essential health benefits.

### *Insurance Affordability Programs: Premium Tax Credit and Cost-Sharing Reductions*

The ACA provides for two types of insurance affordability programs to lower individuals’ insurance premiums or out-of-pocket costs for QHPs: the premium tax credit and cost-sharing reductions.<sup>8</sup>

- **Premium tax credit:** The premium tax credit reduces the cost of a QHP’s premium and is available at tax filing time or in advance. Generally, the premium tax credit is available on a sliding scale to an individual or a family with annual household income from 100 percent through 400 percent of the Federal poverty level. When paid in advance, the credit is referred to as the “advance premium tax credit” (APTC).<sup>9</sup> The Federal Government pays the APTC amount monthly to the QHP issuer on behalf of the taxpayer to offset a portion of the cost of the premium of any metal-level plan. For example, if an individual who selects a QHP with a \$500 monthly insurance premium qualifies for a \$400 monthly APTC (and chooses to use it all), the individual pays only \$100 to the QHP issuer. The Federal Government pays the remaining \$400 to the QHP issuer. Starting in January 2015, taxpayers were required to include on their calendar year (CY) 2014 tax returns (and subsequent years’ tax returns) the amount of any APTC made on their behalf. The IRS reconciles the APTC payments with the maximum allowable amount of the credit.
- **Cost-sharing reductions:** Cost-sharing reductions help qualifying individuals with out-of-pocket costs, such as deductibles, coinsurance, and copayments.<sup>10</sup> For example, an individual who visits a physician may be responsible for a \$30 copayment. If the

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<sup>7</sup> An individual who is under 30 years old or qualifies for a hardship exemption may also choose a catastrophic plan, which requires the individual to pay all of his or her medical expenses until the deductible amount is met (ACA § 1302(e) and 45 CFR §§ 156.155 and 156.440).

<sup>8</sup> We did not review other types of insurance affordability programs, such as Medicaid and CHIP. An individual or a family with income below 100 percent of the Federal poverty level may be eligible for Medicaid under the State’s Medicaid rules but would not qualify for the premium tax credit or cost-sharing reductions.

<sup>9</sup> ACA § 1401 and 45 CFR § 155.20.

<sup>10</sup> ACA § 1402 and 45 CFR § 155.20.

individual qualifies for a cost-sharing reduction of \$20 for the copayment, the individual pays only \$10. In most cases, an individual must select a silver-level QHP to qualify for cost-sharing reductions. Generally, cost-sharing reductions are available to an individual or a family with annual household income from 100 percent through 250 percent of the Federal poverty level. The Federal Government makes monthly payments to QHP issuers to cover estimated costs of cost-sharing reductions provided to individuals. At the end of each year, HHS plans to reconcile the total amount of estimated payments of cost-sharing reductions made to QHP issuers with the actual costs of cost-sharing reductions incurred.<sup>11</sup>

An individual may be eligible for either or both types of insurance affordability programs if he or she meets specified Federal requirements.

*Federal Eligibility Requirements for Qualified Health Plans and Insurance Affordability Programs*

To be eligible to enroll in a QHP, an individual must be a U.S. citizen, a U.S. national, or lawfully present in the United States;<sup>12</sup> not be incarcerated;<sup>13</sup> and meet applicable residency standards.<sup>14</sup>

To be eligible for insurance affordability programs, an individual must meet additional requirements for annual household income.<sup>15</sup> An individual is not eligible for these programs if he or she is eligible for minimum essential coverage that is not offered through a marketplace.<sup>16</sup>

To determine an individual's eligibility for enrollment in a QHP and for insurance affordability programs, the marketplaces verify the information submitted by the applicant using available electronic data sources. Through this verification process, the marketplaces can determine whether the applicant's information matches the information from available electronic data sources in accordance with certain Federal requirements.

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<sup>11</sup> CMS issued guidance to delay reconciliation of cost-sharing reductions provided in CY 2014 and will reconcile 2014 cost-sharing reductions for all issuers beginning in April 2016 (Timing of Reconciliations of Cost-Sharing Reductions for the 2014 Benefit Year (February 13, 2015)).

<sup>12</sup> An individual may be considered "lawfully present" if his or her immigration status meets any of the categories defined in 45 CFR § 152.2.

<sup>13</sup> An individual must not be incarcerated, other than incarceration pending the disposition of charges (45 CFR § 155.305(a)(2)).

<sup>14</sup> ACA §§ 1312(f) and 1411(b) and 45 CFR § 155.305(a)(3).

<sup>15</sup> ACA §§ 1401 and 1402 and 45 CFR §§ 155.305(f) and (g).

<sup>16</sup> 45 CFR § 155.20 and 26 U.S.C. § 5000A(f). Minimum essential coverage consists of employer-sponsored insurance (ESI) and non-ESI. For the purpose of this report, we use the term "non-ESI" to include Government-sponsored programs (e.g., Medicare, Medicaid, TRICARE, and Peace Corps), grandfathered plans, and other plans.

Marketplaces must verify the following, as appropriate, when determining eligibility for QHPs and insurance affordability programs:

- Social Security number,
- citizenship,
- status as a national,<sup>17</sup>
- lawful presence,
- incarceration status (e.g., whether an individual is serving a term in prison or jail),
- residency,
- whether an individual is an Indian,<sup>18</sup>
- family size,
- annual household income,
- eligibility for minimum essential coverage through ESI, and
- eligibility for minimum essential coverage through non-ESI.<sup>19</sup>

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<sup>17</sup> The term “national” may refer to a person who, though not a citizen of the United States, owes permanent allegiance to the United States. All U.S. citizens are U.S. nationals, but only a relatively small number of people acquire U.S. nationality without becoming U.S. citizens (8 U.S.C. § 1101(a)).

<sup>18</sup> “Indian” is defined as an individual who meets the definition in section 4(d) of the Indian Self-Determination and Education Assistance Act (ISDEAA), P.L. No. 93-638. Under section 4(d), “Indian” is a person who is a member of an Indian tribe. The ISDEAA defines “Indian tribes” as “any Indian tribe, band, nation, or other organized group or community, including any Alaska Native village or regional or village corporation as defined in or established pursuant to the Alaska Native Claims Settlement Act, which is recognized as eligible for the special programs and services provided by the United States to Indians because of their status as Indians” (25 U.S.C. § 450b(e)).

<sup>19</sup> 45 CFR §§ 155.315 and 155.320.

## **Application and Enrollment Process for Qualified Health Plans and Insurance Affordability Programs for All Marketplaces**

An applicant<sup>20</sup> may submit an application to enroll in a QHP during an open enrollment period. An applicant may also enroll in a QHP during a special enrollment period outside of the open enrollment period if the applicant experiences certain life changes, such as marriage or the birth of a child.<sup>21</sup> For insurance coverage effective in CY 2014, Kentucky marketplace's open enrollment period was October 1, 2013, through March 31, 2014.<sup>22</sup>

To enroll in a QHP, an applicant must complete an application and meet eligibility requirements defined by the ACA. An applicant can enroll in a QHP through the Federal or a State marketplace, depending on the applicant's State of residence. Applicants can enroll through a Web site, by phone, by mail, in person, or directly with a QHP issuer's broker or agent.

The figure on the following page shows a summary of the steps in the application and enrollment process, and the sections that follow describe in more detail the key steps in the process.

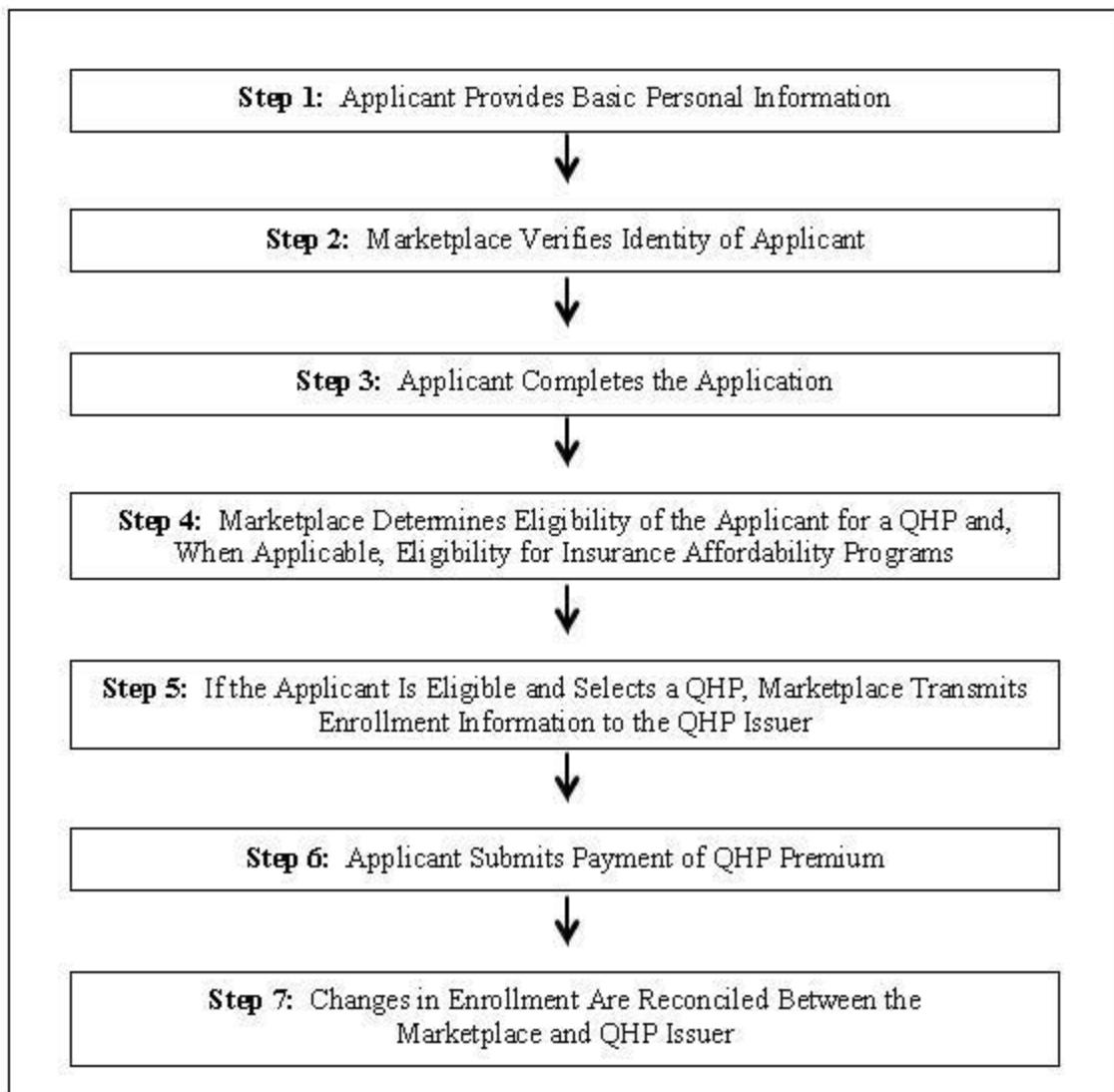
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<sup>20</sup> For the purpose of this report, the term "applicant" refers to both the person who completes the application (application filer) and the person who seeks coverage in a QHP. The application filer may or may not be an applicant seeking coverage in a QHP (45 CFR § 155.20). For example, an application filer may be a parent seeking coverage for a child, who is the applicant.

<sup>21</sup> ACA § 1311(c)(6)(C) and 45 CFR § 155.420.

<sup>22</sup> The Kentucky marketplace created a special enrollment period to allow an applicant to finish the application and enrollment process by May 30, 2014. The special enrollment period was open to applicants who started their applications by March 31, 2014, and could not complete them because of high consumer traffic on the marketplace's Web site.

**Figure: Seven Steps in the Application and Enrollment Process for a Qualified Health Plan**



*Verification of Applicant's Identity (Figure: Steps 1 through 3)*

An applicant begins the enrollment process in a QHP by providing basic personal information, such as name, birth date, and Social Security number. Before an applicant can submit an online or phone application, the marketplace must verify the applicant's identity through identity proofing. The purpose of identity proofing is to (1) prevent an unauthorized individual from creating a marketplace account for another individual and applying for health coverage without the individual's knowledge and (2) safeguard personally identifiable information created, collected, and used by the marketplace. For paper applications, the marketplace requires the applicant's signature before the marketplace processes the application.<sup>23</sup>

<sup>23</sup> CMS's Guidance Regarding Identity Proofing for the Marketplace, Medicaid, and CHIP, and the Disclosure of Certain Data Obtained through the Data Services Hub, (Identity-Proofing Guidance), June 11, 2013.

When completing any type of application, the applicant attests that answers to all questions are true and that the applicant is subject to the penalty of perjury.<sup>24</sup>

*Verification of Applicant's Eligibility (Figure: Step 4)*

After reviewing the applicant's information, the marketplace determines whether the applicant is eligible for a QHP and, when applicable, eligible for insurance affordability programs.<sup>25</sup> To verify the information submitted by the applicant, the marketplace uses multiple electronic data sources, including sources available through the Federal Data Services Hub (Data Hub).<sup>26</sup> The Data Hub is a single conduit for marketplaces to send electronic data to and receive electronic data from multiple Federal agencies; it does not store data. Federal agencies connected to the Data Hub are HHS, the Social Security Administration (SSA), the U.S. Department of Homeland Security, and the IRS, among others (ACA § 1411(c)).<sup>27</sup> Additionally, the marketplace can verify an applicant's eligibility for ESI through Federal employment with the U.S. Office of Personnel Management (OPM) through the Data Hub.

*Resolution of Inconsistencies in Applicant Information (Figure: Step 4)*

Generally, when a marketplace cannot verify information that the applicant submitted or the information is inconsistent with information available through the Data Hub or other sources, the marketplace must attempt to resolve the inconsistencies. For these purposes, applicant information is considered to be consistent with information from other sources if the information is reasonably compatible.<sup>28</sup> Information is considered reasonably compatible if any difference between the applicant information and other sources does not affect the eligibility of the applicant. Inconsistencies do not necessarily indicate that an applicant provided inaccurate information or is enrolled in a QHP or receiving financial assistance through insurance affordability programs inappropriately.

A marketplace must make a reasonable effort to identify and address the causes of an inconsistency by contacting the applicant to confirm the accuracy of the information on the application. If the marketplace is unable to resolve the inconsistency through reasonable efforts, it must generally give the applicant 90 days to submit satisfactory documentation or otherwise

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<sup>24</sup> Any person who fails to provide correct information may be subject to a civil monetary penalty (ACA § 1411(h)).

<sup>25</sup> An applicant can apply for enrollment in a QHP without applying for insurance affordability programs.

<sup>26</sup> State marketplaces can access additional sources of data to verify applicant information. For example, the Kentucky marketplace uses the State Wage Information Collection Agency (SWICA) to verify annual household income.

<sup>27</sup> See Appendix A for information on the Kentucky marketplace's eligibility verification process for applicants' annual household income and eligibility for minimum essential coverage through employer-sponsored and non-ESI.

<sup>28</sup> 45 CFR § 155.300(d). For purposes of determining reasonable compatibility, "other sources" include information obtained through electronic data sources, other information provided by the applicant, or other information in the records of the marketplace.

resolve the inconsistency. (This 90-day period is referred to as “the inconsistency period.”)<sup>29</sup> The marketplace may extend the inconsistency period if the applicant demonstrates that a good-faith effort has been made to obtain required documentation.<sup>30</sup>

During the inconsistency period, the applicant may still enroll in a QHP and, when applicable, may choose to receive the APTC and cost-sharing reductions.<sup>31</sup> An applicant may choose to enroll during the period only if the applicant is otherwise eligible to enroll in a QHP and may receive the APTC and cost-sharing reductions if (1) the applicant meets other eligibility requirements and (2) the tax filer<sup>32</sup> attests that he or she understands that the APTC is subject to reconciliation.<sup>33</sup> After the inconsistency period, if the marketplace is unable to resolve the inconsistency, it determines the applicant’s eligibility on the basis of available data sources and, in certain circumstances, the applicant’s attestation.<sup>34</sup> For example, if the marketplace is unable to resolve an inconsistency related to citizenship, it should determine the applicant ineligible for a QHP and terminate the applicant’s enrollment from the QHP if the applicant is already enrolled.

For more information on how marketplaces may resolve inconsistencies, see Appendix B. For specific information on the Kentucky marketplace’s inconsistency resolution process, see Appendix C.

*Transmission of Applicant’s Enrollment Information to the Qualified Health Plan Issuer (Figure: Steps 5 through 7)*

If an applicant is determined to be eligible and selects a QHP, a marketplace transmits enrollment information to the QHP issuer (45 CFR § 155.400). Generally, an applicant must pay the first month’s QHP premium for the insurance coverage to be effective. If a change to the enrollee’s<sup>35</sup> coverage occurs after the coverage becomes effective, the marketplace and the QHP issuer must reconcile the revised enrollment records (45 CFR § 155.400).

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<sup>29</sup> 45 CFR § 155.315(f).

<sup>30</sup> 45 CFR § 155.315(f)(3).

<sup>31</sup> 45 CFR § 155.315(f)(4).

<sup>32</sup> Generally, a “tax filer” is an individual or a married couple who indicate that they are filing an income tax return for the benefit year (45 CFR § 155.300(a)).

<sup>33</sup> 45 CFR § 155.315(f)(4).

<sup>34</sup> 45 CFR §§ 155.315(f)(5), (f)(6), and (g).

<sup>35</sup> For the purpose of this report, the term “enrollee” refers to an applicant who completed an application, was determined eligible, and selected a QHP and whose enrollment information was sent to a QHP issuer.

## CMS's Oversight of Marketplaces

CMS oversees implementation of certain ACA provisions related to the marketplaces.<sup>36</sup> CMS also works with States to establish State and State-partnership marketplaces, including oversight functions such as performing onsite reviews of system functionality for eligibility determinations, enrollment of applicants, and consumer assistance.<sup>37</sup>

## The Kentucky Marketplace

Kentucky established a State marketplace by executive order.<sup>38</sup> The Office of the Kentucky Health Benefit Exchange is responsible for operating and maintaining the Kentucky marketplace.<sup>39</sup> For insurance coverage effective in CY 2014, the Kentucky marketplace had contracts with five insurance companies to offer QHPs to individuals.

The Kentucky marketplace uses a Web site to determine applicants' eligibility for enrollment in QHPs and, when applicable, eligibility for insurance affordability programs; the Web site also assesses applicants' eligibility for Medicaid and CHIP.

## HOW WE CONDUCTED THIS REVIEW

We reviewed the internal controls that were in place at the Kentucky marketplace during the open enrollment period for insurance coverage effective in CY 2014 (October 1, 2013, through March 31, 2014). We performed an internal control review because it enabled us to evaluate the effectiveness and efficiency of the Kentucky marketplace's operations and compliance with applicable Federal requirements. Appendix D provides general information on internal controls.

We limited our review to those internal controls related to (1) verifying applicants' identities, (2) determining applicants' eligibility for enrollment in QHPs and eligibility for insurance affordability programs, and (3) maintaining and updating eligibility and enrollment data. To determine the effectiveness of the internal controls, we:

- reviewed a sample of 45 applicants randomly selected from applicants who were determined eligible for QHPs during the open enrollment period (a total of 76,225 applicants), which included the review of supporting documentation to evaluate whether the marketplace determined the applicants' eligibility in accordance with Federal requirements, and

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<sup>36</sup> The Center for Consumer Information and Insurance Oversight, within CMS, oversees implementation of the ACA with respect to marketplaces.

<sup>37</sup> ACA § 1313 and 45 CFR §§ 155.110 and 155.1200.

<sup>38</sup> Kentucky Governor's Exec. Order No. 2012-587 (July 17, 2012).

<sup>39</sup> The Kentucky marketplace is commonly known as "Kynect."

- performed other audit procedures, which included interviews with marketplace management, staff, and contractors; observation of staff performing tasks related to eligibility determinations; and reviews of supporting documentation and enrollment records.

Because our review was designed to provide only reasonable assurance that the internal controls we reviewed were effective, it would not necessarily have detected all internal control deficiencies.

Our attribute sampling approach is commonly used to test the effectiveness of internal controls for compliance with laws, regulations, and policies. According to the Government Accountability Office and the President's Council on Integrity and Efficiency's *Financial Audit Manual* (July 2008), section 450, auditors may use a randomly selected sample of 45 items when testing internal controls. If all sample items are determined to be in compliance with requirements, a conclusion that the controls are effective can be made. If one or more sample items are determined not to be in compliance with requirements, a conclusion that the controls are ineffective can be made. Because our objective was limited to forming an opinion about whether the Kentucky marketplace's internal controls were effective, our sampling methodology was not designed to estimate the percentage of applicants for whom the marketplace did not perform the required eligibility verifications.

Although the first open enrollment period for applicants to enroll in QHPs ended on March 31, 2014, an applicant could also have enrolled in a QHP during a special enrollment period if the applicant experienced certain life changes, such as marriage or the birth of a child. We did not review the Kentucky marketplace's determinations of applicants' eligibility that resulted from changes in applicant information reported by applicants after March 31, 2014.

We performed fieldwork from June through December 2014 at the Kentucky marketplace office in Frankfort, Kentucky.

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.

Appendix E contains the details of our audit scope and methodology.

## FINDINGS

The Kentucky marketplace's internal controls were generally effective in ensuring that individuals were enrolled in QHPs according to Federal requirements. On the basis of our review of 45 sample applicants from the enrollment period for insurance coverage effective in CY 2014, we determined that certain internal controls were effective, such as the controls for verifying applicants' incarceration status. However, on the basis of our sample review and performing other audit procedures, such as interviewing marketplace officials and reviewing

supporting documentation, we determined that other controls were not effective. Specifically, the Kentucky marketplace did not always (1) maintain identity-proofing verification documentation (four sample applicants); (2) verify applicants' eligibility for minimum essential coverage (two sample applicants); or (3) notify applicants of, or resolve, inconsistencies in eligibility data (two sample applicants).

The presence of an internal control deficiency does not necessarily mean that the Kentucky marketplace improperly enrolled an applicant in a QHP or improperly determined eligibility for insurance affordability programs. Other mechanisms exist that may remedy the internal control deficiency, such as the resolution process during the inconsistency period. For example, although the Kentucky marketplace did not have a control in place to verify an applicant's citizenship when the Data Hub returned a system error, the marketplace may still have been able to verify citizenship with satisfactory documentation provided by the applicant.

The deficiencies that we identified occurred because the Kentucky marketplace did not (1) ensure that it maintained identity-proofing documentation or (2) design its enrollment system, in case initial data verification failed, to ensure that further data validation would occur or an inconsistency would be identified and resolved in a timely manner.

## **THE KENTUCKY MARKETPLACE DID NOT ALWAYS MAINTAIN IDENTITY-PROOFING DOCUMENTATION**

Marketplaces must maintain, and ensure that their contractors, subcontractors, and agents maintain for 10 years, documents and records that are sufficient to enable HHS or its designees to evaluate the marketplaces' compliance with Federal requirements (45 CFR § 155.1210(a)). The records must include data and records related to the marketplaces' eligibility verifications and determinations and enrollment transactions (45 CFR § 155.1210(b)(4)).

Marketplaces must establish and implement operational, technical, administrative, and physical safeguards to ensure the confidentiality, integrity, and availability of personally identifiable information that they create, collect, use, or disclose and to ensure that personally identifiable information is used by or disclosed to only those authorized to receive or view it (45 CFR § 155.260(a)(4)).

According to CMS's identity-proofing guidance for State marketplaces, before a marketplace accepts an online or a telephone application for enrollment in a QHP, it must conduct identity proofing sufficient to provide assurance that only the appropriate individual has access to restricted data. The guidance explains that identity proofing involves the (1) collection of core attributes, including the applicant's name, birth date, Social Security number (optional), address, phone number, and email address; (2) validation of core attributes with a trusted data source; and (3) collection and validation, for some applicants, of responses to questions about the applicant's personal history, e.g., the names of current and past employers. The Kentucky marketplace did not always maintain documentation from identity proofing of applicants. Specifically, for 4 of

the 24 sample applicants who applied online,<sup>40</sup> the Kentucky marketplace did not document that it had performed identity proofing in accordance with CMS guidance.<sup>41</sup> Although the marketplace performed identity proofing of applicants who applied for QHPs using the marketplace's Web site, the system did not have a control in place to maintain the Data Hub's responses.

Without maintaining identity-proofing documentation, the Kentucky marketplace cannot document that it complied with Federal requirements.

The Kentucky marketplace improved its controls in late October 2013, shortly after system implementation, and now maintains all identity-proofing verification documentation. In addition, the marketplace provided support that identity-proofing questions were requested through the Data Hub.

### **THE KENTUCKY MARKETPLACE DID NOT ALWAYS VERIFY THAT APPLICANTS REQUESTING FINANCIAL ASSISTANCE WERE NOT ELIGIBLE FOR MINIMUM ESSENTIAL COVERAGE**

To be eligible for insurance affordability programs, an applicant must not be eligible for minimum essential coverage, with the exception of coverage in the individual market (45 CFR §§ 155.305(f)(1)(ii)(B), (g)(1)(i)(B)). Federal regulations define minimum essential coverage as having the meaning given in 26 U.S.C. § 5000A(f) (45 CFR § 155.20). As described in 26 U.S.C. § 5000A(f), specified government-sponsored programs, eligible employer-sponsored plans, grandfathered health plans, and certain other health benefits coverage are minimum essential coverage (26 CFR § 1.36B-2(c)).

The marketplace must verify whether an applicant is eligible for minimum essential coverage other than through an eligible employer-sponsored plan, Medicaid, CHIP, or basic health plan using information obtained by transmitting to HHS identifying information specified for verification purposes (45 CFR § 155.320(b)). In addition, the marketplace must verify whether an applicant reasonably expects to be enrolled in or is eligible for minimum essential coverage in an eligible employer-sponsored plan for the benefit year for which coverage is requested (45 CFR § 155.320(d)(1)). This procedure includes verifying whether the applicant has coverage through Federal employment by transmitting identifying information to HHS about the applicant (45 CFR § 155.320(d)(2)(ii)).

The Kentucky marketplace did not always verify whether an applicant was eligible for minimum essential coverage through ESI or non-ESI. For 2 of the 30 sample applicants,<sup>42</sup> the Kentucky

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<sup>40</sup> For the remaining 21 sample applicants, the marketplace properly performed identity proofing when the applicants had completed their applications in person with an agent.

<sup>41</sup> Marketplaces perform identify proofing of application filers. If a sample applicant was not the application filer, we reviewed supporting documentation for identity proofing of the application filer.

<sup>42</sup> We reviewed 30 of the 45 sample applicants for this deficiency because 15 sample applicants did not apply for financial assistance. As a result, the Kentucky marketplace was not required to verify minimum essential coverage.

marketplace did not transmit to the Data Hub attested information regarding applicants' ESI and non-ESI minimum essential coverage. The marketplace's enrollment system had a system error that prevented the information from being transmitted when the applicants' Social Security numbers were not successfully validated through Kynect. For the two sample applicants, the marketplace relied on the applicants' attestations without attempting to verify the attestation with electronic data sources and took no further action.

Without transmitting and verifying an applicant's minimum essential coverage, the Kentucky marketplace did not ensure that every applicant met each of the eligibility requirements for insurance affordability programs.

Kentucky marketplace officials stated that this system error was corrected as of February 24, 2014. Additionally, the ESI and non-ESI minimum essential coverage interface was invoked subsequent to the system errors, leading to successful verification for these sample applicants. Furthermore, Kentucky implemented a business process to reprocess these items with the Data Hub. As part of the new business process, effective February 24, 2014, a request for information (RFI) will be generated that requires the applicant to provide additional support documentation regarding minimum essential coverage prior to benefit approval.

## **THE KENTUCKY MARKETPLACE DID NOT ALWAYS RESOLVE INCONSISTENCIES IN ELIGIBILITY DATA**

Marketplaces must make a reasonable effort to identify and address the causes of inconsistencies in eligibility data. If a marketplace is unable to resolve an inconsistency, it must notify the applicant of the inconsistency and generally must give the applicant 90 days from the date on which the notice was sent to either present satisfactory documentary evidence or otherwise resolve the inconsistency (45 CFR § 155.315(f)). The marketplace may extend the inconsistency period when an applicant demonstrates a good-faith effort to obtain sufficient documentation to resolve the inconsistency (45 CFR § 155.315(f)(3)). During the inconsistency period, an applicant who is otherwise qualified is eligible to enroll in a QHP and, when applicable, eligible for insurance affordability programs (45 CFR § 155.315(f)(4)). After the inconsistency period, if the marketplace is unable to resolve the inconsistency, it determines the applicant's eligibility on the basis of available data sources and, in certain circumstances, the applicant's attestation (45 CFR §§ 155.315(f)(5), (f)(6), and (g)).

The Kentucky marketplace did not always resolve inconsistencies that it identified in eligibility data. Specifically, for 1 of the 14 sample applicants,<sup>43</sup> the Kentucky marketplace did not notify the applicant that there was an inconsistency in annual household income.

- The Kentucky marketplace identified an inconsistency in one sample applicant's annual household income on March 12, 2014. The Kentucky marketplace created an RFI letter to request that the applicant provide supporting documentation; however, the RFI was never printed and mailed to the applicant because of a system error. As a result, the

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<sup>43</sup> We reviewed 14 of the 45 sample applicants for this deficiency because 31 sample applicants did not have an inconsistency regarding annual household income.

applicant was not notified of the inconsistency or given an opportunity to submit supporting documentation to resolve the inconsistency. The Kentucky marketplace allowed the applicant to remain enrolled in a QHP and eligible to receive an APTC.

In addition, for 1 of the 45 sample applicants, the Kentucky marketplace did not resolve an inconsistency in citizenship.

- The Kentucky marketplace notified one sample applicant, who it had determined was eligible for a QHP and an APTC, of an inconsistency it had identified related to citizenship on December 26, 2013. The Kentucky marketplace requested that the applicant provide supporting documentation; however, it did not receive a response from the applicant by March 26, 2014, which was the end of the 90-day inconsistency period. At the time, the Kentucky marketplace did not resolve the inconsistency and did not give the applicant an extension of the inconsistency period because of a good-faith effort to provide supporting documentation. The Kentucky marketplace did not resolve the inconsistency because it did not have a procedure to identify inconsistency periods that were ending without resolution. As a result, the applicant remained enrolled in a QHP and eligible to receive an APTC.

Without notifying applicants of, and subsequently resolving, all inconsistencies in eligibility data, the Kentucky marketplace did not ensure that every applicant met each of the eligibility requirements for enrollment in a QHP and, when applicable, for eligibility for insurance affordability programs.

As of October 16, 2014, the marketplace performed additional eligibility verification for both sample applicants. For the first sample applicant, an additional RFI was sent to the applicant for income verification, and for the second sample applicant, citizenship was successfully verified with the Data Hub. In addition, the Kentucky marketplace now runs a batch process report on all expiring inconsistencies to ensure that additional followup occurs where warranted.

## **RECOMMENDATIONS**

We recommend that the Kentucky marketplace:

- maintain identity-proofing documentation for applicants who apply for QHPs and
- improve the design of its enrollment system to ensure that it identifies and resolves all inconsistencies in eligibility data and determines an applicant's eligibility on the basis of available electronic data sources, as appropriate.

## **KENTUCKY MARKETPLACE COMMENTS**

In written comments on our draft report, Kentucky marketplace officials concurred with all of our findings and recommendations and provided information on actions that they had taken to address our recommendations. The Kentucky marketplace comments are included in their entirety as Appendix F.

## **APPENDIX A: THE KENTUCKY MARKETPLACE'S PROCESS FOR VERIFYING ANNUAL HOUSEHOLD INCOME AND ELIGIBILITY FOR MINIMUM ESSENTIAL COVERAGE THROUGH EMPLOYER-SPONSORED AND NON-EMPLOYER-SPONSORED INSURANCE**

The following describes how the Kentucky marketplace used data on annual household income and eligibility for minimum essential coverage through employer-sponsored and non-ESI to determine eligibility for the APTC and cost-sharing reductions.

### **ANNUAL HOUSEHOLD INCOME**

1. An applicant applies for the APTC and cost-sharing reductions.
2. The applicant enters projected annual household income on an application (attested income).
3. The attested income is compared with data available from IRS and SSA. If the attested income is lower than the income reflected in IRS and SSA data but is within 10 percent of the amount from those sources, the attested income is considered verified. If the attested income is higher than the income reflected in IRS and SSA data, the attested income is considered verified.
4. If the attested income cannot be verified using IRS and SSA data, the attested income is compared with current wage data from SWICA. If the attested income is lower than the income reflected in SWICA data but is within 10 percent of the amount from SWICA, the attested income is considered verified. If the attested income is higher than the income reflected in SWICA data, the attested income is considered verified.
5. If the income data from SWICA does not verify the attested income, the marketplace places the applicant in an inconsistency period and sends an RFI letter to the applicant requesting an explanation or additional documentation to substantiate the attested income.
6. During the inconsistency period, the applicant is provided with eligibility for the APTC and cost-sharing reductions on the basis of the attested income.
7. If the applicant submits acceptable supporting documentation (e.g., copies of Form W-2) reflecting that household income is within 10 percent of the attested income, the marketplace determines that the attested income is verified.
8. If the applicant does not submit the requested documentation within the specified timeframe, the marketplace determines the applicant's eligibility for the APTC and cost-sharing reductions on the basis of data available from the IRS and SSA, or SWICA. If the data are unavailable from these sources, the marketplace discontinues any APTC and cost-sharing reductions.

## **ELIGIBILITY FOR MINIMUM ESSENTIAL COVERAGE THROUGH EMPLOYER-SPONSORED INSURANCE**

1. An applicant applies for the APTC and cost-sharing reductions.
2. The applicant attests to whether he or she is eligible (or will be eligible during the coverage year) for health coverage through a job, even if it is from another person's job, such as a spouse's. The applicant states "Yes" or "No" on the application.
3. Regardless of the applicant's response, the marketplace uses the Data Hub to verify that the applicant is eligible for ESI. The Data Hub checks data available from OPM. OPM is the only data source that the marketplace uses to verify that an applicant has ESI.
4. If the applicant's response is "No" and the applicant's name is included in the OPM data, the marketplace places the applicant in an inconsistency period and sends a letter to the applicant requesting an explanation or additional documentation to substantiate the applicant's attestation of "No."
5. During the inconsistency period, the applicant is provided with eligibility for the APTC and cost-sharing reductions on the basis of the attestation that the applicant is not eligible for ESI.
6. If the applicant does not submit the requested documentation within the specified timeframe, the marketplace determines the applicant's eligibility on the basis of data available from OPM and discontinues any APTC and cost-sharing reductions.

## **ELIGIBILITY FOR MINIMUM ESSENTIAL COVERAGE THROUGH NON-EMPLOYER-SPONSORED INSURANCE**

1. An applicant applies for the APTC and cost-sharing reductions.
2. The applicant attests to whether he or she is eligible for non-ESI.
3. If the applicant attests that he or she is eligible for non-ESI, such as Medicare or Medicaid, the marketplace accepts the attestation and determines the applicant ineligible for the APTC and cost-sharing reductions.
4. If the applicant attests to not having or not being eligible for non-ESI, the marketplace verifies the attestation using the Data Hub.<sup>44</sup> If the Data Hub sources confirm that the applicant is not eligible for non-ESI, the marketplace determines the applicant to be eligible for the APTC and cost-sharing reductions if the applicant meets the other requirements, as applicable.

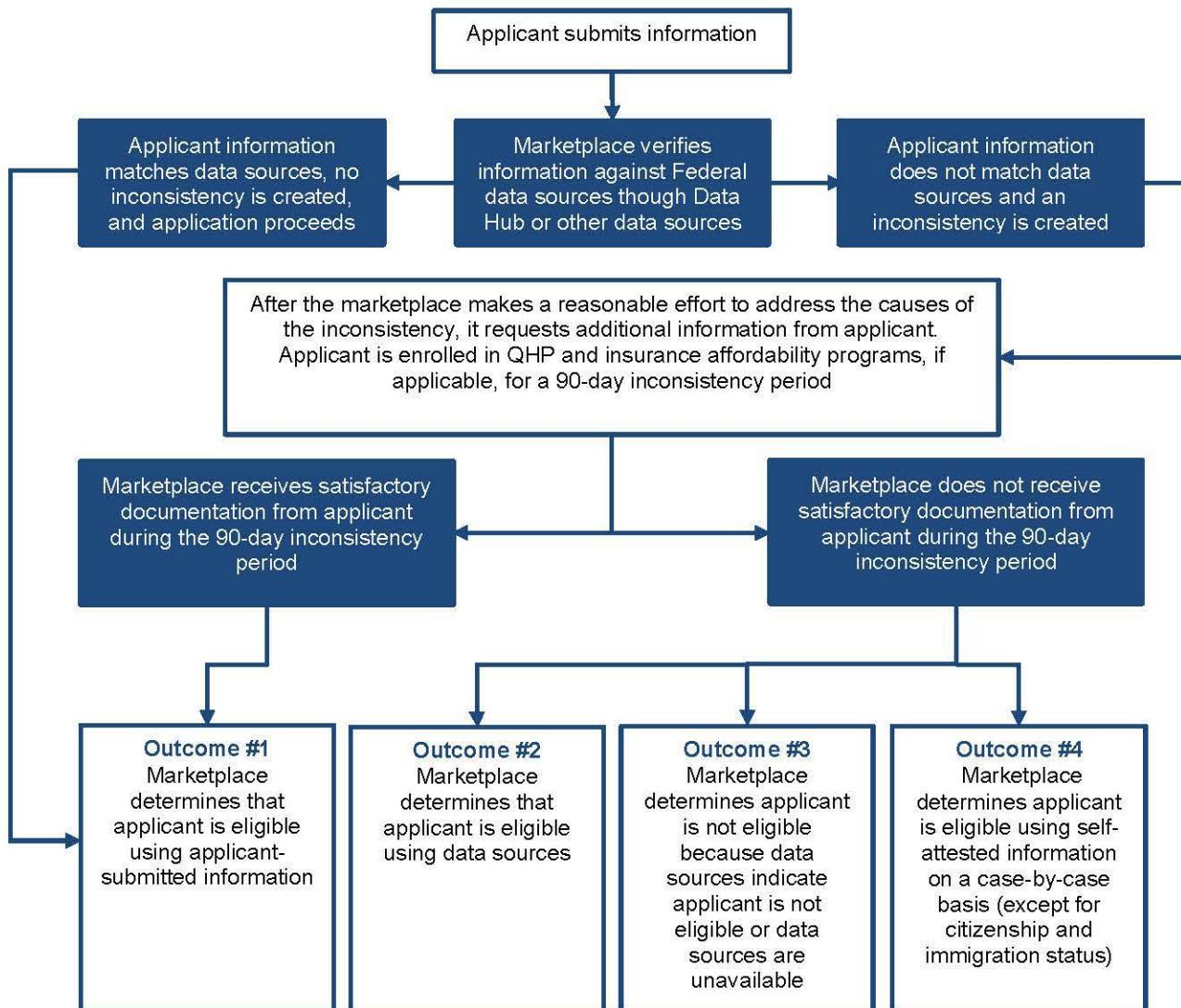
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<sup>44</sup> The Data Hub checks data from Medicare, Medicaid, the Peace Corps, TRICARE, and the Veterans Health Administration as part of the non-ESI verification. Insurance coverage provided under the Peace Corps and TRICARE is non-ESI in accordance with 26 U.S.C. § 5000A(f).

5. If the Data Hub sources return a record indicating that the applicant is eligible for non-ESI, the marketplace places the applicant in an inconsistency period and sends a letter to the applicant requesting an explanation or additional documentation to substantiate either that the applicant is not eligible for these coverage types or the coverage has ended.
6. During the inconsistency period, the applicant is provided with eligibility for the APTC and cost-sharing reductions on the basis of the information included on the application.
7. If the applicant submits acceptable documentation, such as a letter indicating a cancellation of benefits, to show that the applicant is not eligible for non-ESI, the marketplace determines the applicant to be eligible for the APTC and cost-sharing reductions if the applicant meets the other requirements, as applicable.

If the applicant does not submit acceptable documentation within the inconsistency period, the marketplace determines the applicant to be ineligible for the APTC and cost-sharing reductions on the basis of data obtained from the Data Hub.

## APPENDIX B: STEPS AND OUTCOMES FOR RESOLVING INCONSISTENCIES



## **APPENDIX C: THE KENTUCKY MARKETPLACE'S INCONSISTENCY RESOLUTION PROCESS**

Inconsistencies are generated when an applicant's attested information cannot be verified through electronic data sources. For attested information related to residency and family size, the marketplace accepts the applicant's attestation without further verification. The following describes the steps in the Kentucky marketplace's inconsistency resolution process:

1. If the applicant's attested information cannot be verified through electronic data sources, the marketplace sends an RFI letter to the applicant requesting an explanation or supporting documentation to resolve the inconsistency. The applicant is given 90 days from the date of the initial eligibility determination shown in the letter to provide the requested documentation. During the inconsistency period, the applicant may still enroll in a QHP and, when applicable, may choose to receive the APTC and cost-sharing reductions. An applicant may choose to enroll during the period only if the applicant is otherwise eligible to enroll in a QHP and may receive the APTC and cost-sharing reductions if (1) the applicant meets other eligibility requirements and (2) the tax filer attests that he or she understands that the APTC is subject to reconciliation. An applicant can provide the explanation or documentation by mail or upload the documentation through the marketplace Web site.
2. If the applicant does not provide any explanation or supporting documentation by the end of the 90-day inconsistency period, the marketplace determines the applicant's eligibility on the basis of data available from electronic data sources and the inconsistency is resolved. If no data are available from electronic sources, the applicant's enrollment may be terminated or the applicant may be determined ineligible for the APTC and cost-sharing reductions, as appropriate.
3. If the applicant provides documentation to support the attested information, the inconsistency is resolved.
4. If the applicant provides supporting documentation that is not sufficient to support the attested information, the inconsistency is considered unresolved. The marketplace sends a letter to the applicant indicating that the documentation was insufficient and requesting that the applicant provide sufficient supporting documentation within 30 days of the letter. If the applicant provides sufficient supporting documentation within 30 days, the inconsistency is resolved. If the supporting documentation does not resolve the inconsistency or the applicant does not provide any documentation, the marketplace determines the applicant's eligibility on the basis of data from electronic sources.

## **APPENDIX D: OVERVIEW OF INTERNAL CONTROLS**

### **INTERNAL CONTROLS IN THE GOVERNMENT<sup>45</sup>**

Internal controls are an integral component of an organization's management that provides reasonable, not absolute, assurance that the following objectives of an agency are being achieved: (1) effectiveness and efficiency of operations, (2) reliability of financial reporting, and (3) compliance with applicable laws and regulations.

Internal controls are composed of the plans, policies, methods, and procedures used to meet the organization's mission, goals, and objectives. They include the processes and procedures for planning, organizing, directing, and controlling program operations and management's systems for measuring, reporting, and monitoring program performance.

A deficiency in an internal control exists when the design, implementation, or operation of a control does not allow management or personnel, in the normal course of performing their assigned functions, to achieve control objectives and address related risks.

### **FIVE COMPONENTS OF INTERNAL CONTROL<sup>46</sup>**

Internal control consists of five interrelated components:

- **Control Environment:** The set of standards and processes that provides the foundation for carrying out internal control across the organization. The control environment includes factors such as the organizational structure, assignment of authority and responsibilities, and ethical values.
- **Risk Assessment:** The process for identifying and evaluating risks to achieve objectives.
- **Control Activities:** The actions established through policies and procedures that help ensure management's directives to reduce risks are carried out. These activities include authorizations and approvals, verifications, and reconciliations.
- **Information and Communication:** Use of relevant and quality information to support the functioning of other internal control components. Communication is the process of management providing, sharing, and obtaining necessary information to staff.
- **Monitoring:** Ongoing or separate evaluations or both to ascertain whether the components are present and functioning.

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<sup>45</sup> Government Accountability Office's *Standards for Internal Control in the Federal Government: 1999* (known as the Green Book) and *Government Auditing Standards: 2011 Revision*. The Green Book was revised in September 2014, which was after our audit period.

<sup>46</sup> Committee of Sponsoring Organizations of the Treadway Commission: *Internal Control—Integrated Framework*, Executive Summary (May 2013).

## APPENDIX E: AUDIT SCOPE AND METHODOLOGY

### SCOPE

We reviewed the internal controls that were in place at the Kentucky marketplace during the open enrollment period for insurance coverage effective in CY 2014 (October 1, 2013, through March 31, 2014). Internal controls are intended to provide reasonable assurance that an organization's objectives are being achieved, including effectiveness and efficiency of operations and compliance with applicable laws and regulations. We performed an internal control review because it enabled us to evaluate the effectiveness and efficiency of the Kentucky marketplace's operations and compliance with applicable Federal requirements.

We limited our review to those internal controls related to (1) verifying applicants' identities, (2) determining applicants' eligibility for enrollment in QHPs and eligibility for insurance affordability programs, and (3) maintaining and updating eligibility and enrollment data. In our review, we focused on control activities, which is one of the five components of internal controls, as described in Appendix D.

To determine the effectiveness of the internal controls, we:

- reviewed a sample of 45 applicants randomly selected from applicants who enrolled in QHPs during the open enrollment period (a total of 76,225 applicants), which included the review of supporting documentation to evaluate whether the marketplace determined the applicants' eligibility in accordance with Federal requirements, and
- performed other audit procedures, which included interviews with marketplace management, staff, and contractors; observation of staff performing tasks related to eligibility determinations; and reviews of supporting documentation and enrollment records.

Because our review was designed to provide only reasonable assurance that the internal controls we reviewed were effective, it would not necessarily have detected all internal control deficiencies.

Our attribute sampling approach is commonly used to test the effectiveness of internal controls for compliance with laws, regulations, and policies. According to the Government Accountability Office and the President's Council on Integrity and Efficiency's<sup>47</sup> *Financial Audit Manual* (July 2008), section 450, auditors may use a randomly selected sample of 45 items when testing internal controls. If all sample items are determined to be in compliance with requirements, a conclusion that the controls are effective can be made. If one or more sample items are determined not to be in compliance with requirements, a conclusion that the controls are ineffective can be made. Because our objective was limited to forming an opinion about whether the Kentucky marketplace's internal controls were effective, our sampling methodology

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<sup>47</sup> The President's Council on Integrity and Efficiency is now called the Council of the Inspectors General on Integrity and Efficiency (Inspector General Act § 11).

was not designed to estimate the percentage of applicants for whom the marketplace did not perform the required eligibility verifications.

Although the first open enrollment period for applicants to enroll in QHPs ended on March 31, 2014, an applicant could also have enrolled in a QHP during a special enrollment period if the applicant experienced certain life changes, such as marriage or the birth of a child. We did not review the Kentucky marketplace's determinations of applicants' eligibility that resulted from changes in applicant information reported by applicants after March 31, 2014.

We performed fieldwork from June through December 2014 at the Kentucky marketplace office in Frankfort, Kentucky.

## METHODOLOGY

To accomplish our objective, we:

- reviewed applicable Federal and State laws, regulations, and guidance;
- reviewed the Secretary of HHS's report on the eligibility verifications for the APTC and cost-sharing reductions (submitted to Congress on December 31, 2013);
- assessed internal controls by:
  - interviewing officials from the Kentucky marketplace and their contractors and reviewing documentation provided by them to understand how the marketplace (1) verifies applicants' identities, (2) verifies information submitted on enrollment applications and makes eligibility determinations, and (3) maintains and updates eligibility and enrollment data;
  - observing marketplace staff performing tasks related to eligibility determinations; and
  - reviewing documents and records related to the marketplace's eligibility determinations, such as eligibility verification data;
- obtained enrollment records from the Kentucky marketplace for 76,225 applicants who were determined eligible for QHPs during the open enrollment period;
- analyzed the enrollment records to obtain an understanding of information that was sent to QHP issuers;
- performed tests, such as matching records to the marketplace's enrollment system, to determine whether the enrollment data were reliable;
- performed testing of the Kentucky marketplace's internal controls for eligibility determinations by:

- using the OIG, Office of Audit Services, statistical software to randomly select 45 applicants who were determined eligible for QHPs during the open enrollment period, and
  - obtaining and reviewing eligibility data for each sample applicant to determine whether the marketplace performed the required eligibility verification and determination according to Federal requirements; and
- discussed the results of our review with Kentucky marketplace officials.

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.

## APPENDIX F: KENTUCKY MARKETPLACE COMMENTS



Kentucky's Healthcare Connection

Steven L. Beshear  
Governor

Carrie Banahan  
Executive Director

Audrey Tayse Haynes  
Secretary

Cabinet for Health and Family Services  
[Kentucky Office of Health Benefit and Health Information Exchange](#)  
8 Mill Creek Park, Frankfort, KY 40601  
1-855-4kynect (459-6328)  
[kynect.ky.gov](http://kynect.ky.gov)

**TO:** Truman M. Mayfield, Audit Manager  
Office of Inspector General

**FROM:** Carrie Banahan, Executive Director  
Kentucky Health Benefit Exchange

**DATE:** June 24, 2015

**SUBJECT:** Response to the Office of the Inspector General's Audit  
Report No. A-04-14-08036

*EB*

Thank you for the opportunity to respond to the findings and recommendations in the audit report. Our responses to each finding and recommendation are below.

**FINDING:** The Kentucky Marketplace did not always maintain identity-proofing documentation.

**RESPONSE:** The Kentucky Marketplace concurs with this finding. As stated in the report, the Exchange does complete identity proofing for individuals according to CMS identity proofing guidelines for State Marketplaces; however, the Exchange did not begin to store individual's identity-proofing return responses from the Federal Data Service Hub (FDSH) until October 27, 2013. Responses provided by the FDSH for identity proofing have been stored by the Exchange since October 27, 2013.

**FINDING:** The Kentucky Marketplace did not always verify that applicants requesting financial assistance were not eligible for minimum essential coverage.

**RESPONSE:** The Kentucky Marketplace concurs with this finding. The Kentucky Marketplace uses the FDSH to verify minimum essential coverage for individuals who apply through the Exchange; however, on the two sample cases an exception occurred when sending the records to the FDSH for verification. This technical exception was corrected on February 24, 2014. In addition, Kentucky also implemented a technical solution to retrigger the FDSH interface when an exception occurs. If the Exchange is unable to validate the exception with multiple retrigger occurrences to the FDSH, a request for information is issued to the applicant to provide supporting documentation for the unverified information, including minimum essential coverage.

**FINDING:** The Kentucky Marketplace did not always resolve inconsistencies in eligibility data.

**RESPONSE:** The Kentucky Marketplace concurs with this finding. As mentioned in the report, by October 16, 2014 the first sample case was issued a request for information to address the inconsistency and in the second sample case the inconsistency was resolved by retriggering the



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Kentucky Marketplace's Internal Controls Under the Affordable Care Act (A-04-14-08036)

FDSH. In order to take appropriate and timely action on cases involving an inconsistency, the Exchange implemented an automated batch process for cases failing to respond to their request for information by the due date.

**RECOMMENDATIONS:** Continue to maintain identity-proofing documentation for applicants who apply for QHPs and improve the design of its enrollment system to ensure that it identifies and resolves all inconsistencies in eligibility data and determines an applicant's eligibility on the basis of available electronic data sources, as appropriate.

**RESPONSE:** The Kentucky Marketplace concurs with your recommendations. As listed above, the Exchange will continue to maintain identity-proofing documentation and has already taken the above listed measures to ensure all inconsistencies are resolved in a timely and effective manner.

Please contact me at (502) 564-7940 if you have any questions.

/Carrie Banahan/  
Executive Director