

STATE OF CONNECTICUT



*AUDITORS' REPORT
CONNECTICUT HEALTH INSURANCE EXCHANGE
FOR FISCAL YEARS ENDED JUNE 30, 2012 AND 2013*

AUDITORS OF PUBLIC ACCOUNTS
JOHN C. GERAGOSIAN ❖ ROBERT M. WARD

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AUDITORS OF PUBLIC ACCOUNTS

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October 6, 2015

AUDITORS' REPORT CONNECTICUT HEALTH INSURANCE EXCHANGE FOR THE FISCAL YEARS ENDED JUNE 30, 2012 and 2013

We have audited certain operations of the Connecticut Health Insurance Exchange (Exchange) in fulfillment of our duties under Sections 1-122 and 2-90 of the Connecticut General Statutes. The scope of our audit included, but was not necessarily limited to, the years ended June 30, 2012 and 2013.

The objectives of our audit were to:

1. Evaluate the Exchange's internal controls over significant management and financial functions;
2. Evaluate the Exchange's compliance with policies and procedures internal to the authority or promulgated by other state agencies, as well as certain legal provisions, including but not limited to whether the Connecticut Health Insurance Exchange has complied with its regulations concerning affirmative action, personnel practices, the purchase of goods and services, the use of surplus funds and the distribution of loans, grants and other financial assistance, as applicable; and
3. Evaluate the economy and efficiency of certain management practices and operations, including certain financial transactions.

Our methodology included reviewing written policies and procedures, financial records, minutes of meetings, and other pertinent documents; interviewing various personnel of the authority, as well as certain external parties; and testing selected transactions. We obtained an understanding of internal controls that we deemed significant within the context of the audit objectives and assessed whether such controls have been properly designed and placed in operation. We tested certain of those controls to obtain evidence regarding the effectiveness of their design and operation. We also obtained an understanding of legal provisions that are significant within the context of the audit objectives, and we assessed the risk that illegal acts, including fraud, and violations of contracts, grant agreements, or other legal provisions could

occur. Based on that risk assessment, we designed and performed procedures to provide reasonable assurance of detecting instances of noncompliance significant to those provisions.

We conducted our audit in accordance with the standards applicable to performance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform our 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 such a basis.

The accompanying Résumé of Operations is presented for informational purposes. This information was obtained from the Exchange's management and was not subjected to the procedures applied in our audit of the authority.

For the areas audited, we identified:

1. Deficiencies in internal controls;
2. Apparent noncompliance with legal provisions; and
3. Need for improvement in management practices and procedures that we deemed to be reportable.

The State Auditors' Findings and Recommendations in the accompanying report presents any findings arising from our audit of the Connecticut Health Insurance Exchange.

COMMENTS

FOREWORD

Effective July 1, 2011, Public Act 11-53 established the Connecticut Health Insurance Exchange as a quasi-public agency to satisfy requirements of the federal Patient Protection and Affordable Care Act (PPACA). Under the act, a 14-member board manages the Exchange, including operating an online marketplace, Access Health CT (AHCT), where individuals and small employers (i.e., those with up to 50 employees) can compare and purchase health insurance plans that meet federal requirements beginning in 2014.

Since the passage of the enabling legislation, Public Act 12-1 and Public Act 13-247 amended the make-up of the board and transferred additional duties to the Exchange. Effective July 1, 2012, Public Act 12-1 changed the State Healthcare Advocate from a non-voting board member to a voting board member. Effective June 19, 2013, Public Act 13-247 added the Commissioner of the Department of Mental Health and Addiction Services to the board of the Exchange as an ex-officio non-voting member and reduced the required quorum for the board from seven to six voting members. The act also shifted several of the responsibilities from the defunct Office of Health Reform and Innovation. The Exchange became responsible for reporting on the cost to the state for mandated insurance benefits in excess of the essential health benefits established by the U.S. Department of Health and Human Services as well as the design, development, and implementation of the All-Payer-Claims Database.

Board of Directors and Administrative Officials

Public Act 11-53 vests the power of the exchange in a 14-member board of directors. As of June 30, 2013, the members of the board of directors were as follows:

Governor Appointments:

Nancy Wyman, Chair, Lieutenant Governor, State of Connecticut
Mary C. Fox

Legislative Leadership Appointments:

Paul Philpott
Grant A. Ritter
Robert E. Scalettar
Robert F. Tessier
Cecilia J. Woods
Maura Carley

Ex Officio Non-Voting Members:

Anne Melissa Dowling, Deputy Commissioner, Connecticut Insurance Department
Dr. Jewel Mullen, Commissioner, Department of Public Health
Patricia Rehmer, Commissioner, Department of Mental Health and Addiction Services

Ex Officio Voting Members:

Roderick L. Bremby, Commissioner, Department of Social Services
Vicki Veltri, Vice-Chair, State Healthcare Advocate, Office of the Healthcare Advocate
Benjamin Barnes, Secretary, Office of Policy and Management

Michael Devine and Mickey Herbert served as legislative appointees and Jeanette DeJesus served as the Special Advisor to the Governor on Health Reform on the board during the audited period.

Public Act 11-53, Section 2 provides that the chairperson of the board shall be appointed from among the members by the Governor and the board members shall annually elect a vice-chairperson.

On July 3, 2012, Kevin Counihan was appointed to the position of Chief Executive Officer of the Connecticut Health Insurance Exchange. Mr. Counihan separated from the Exchange, effective September 5, 2014. James Wadleigh, the Chief Information Officer assumed the duties of Mr. Counihan as Acting CEO, an appointment made permanent on February 19, 2015.

Other Audit Examinations

An independent certified public accountant audited the books and accounts of the Exchange for each of the fiscal years ended June 30, 2012 and 2013. Those reports each expressed an unqualified opinion on the financial statements and reported no material weaknesses in internal controls.

In addition, certain systems of the Exchange were subject to audit work by various federal agencies. As required by the Continuing Appropriations Act 2014, the Office of the Inspector General (OIG) reviewed the controls at the Exchange used to determine eligibility of individuals for enrollment in a qualified health plan in accordance with the federal requirements. In its report, the OIG stated that not all of the Exchange's internal controls were effective at ensuring compliance and issued three recommendations.

According to Section 1-122 of the Connecticut General Statutes, quasi-public agencies such as the Connecticut Health Insurance Exchange are required to have a biennial compliance audit performed by the Auditors of Public Accounts. These audits should determine whether these agencies comply with their own regulations concerning affirmative action, personnel practices, the purchase of goods and services, the use of surplus funds, and the distribution of loans, grants and other financial assistance.

Federal oversight and program integrity standards for state exchanges establish external audit standards. According to 45 CFR Section 155.1200(d), independent audits of state exchanges must address processes and procedures designed to prevent improper eligibility determinations and enrollment transactions and the identification of errors that have resulted in incorrect eligibility determinations.

In accordance with Section 1-122, we performed a compliance audit of the Exchange for the fiscal years ended June 30, 2012 and 2013. We noted certain weaknesses in compliance and internal controls, which are discussed in the State Auditors' Findings and Recommendations and Recommendations sections of this report.

RÉSUMÉ OF OPERATIONS

Background

The Connecticut Health Insurance Exchange was created in response to the choice states were given as a part of the Patient Protection and Affordable Care Act (PPACA). In the act, states were given the choice of establishing their own State Based Exchange (SBE), or defaulting to the federal exchange. With the passage of Public Act 11-53, Connecticut became one of the states that chose to initiate, develop and run an SBE.

According to Section 38a-1083(b) of the General Statutes, the goals of the Exchange are to “reduce the number of individuals without health insurance in this state and assist individuals and small employers in the procurement of health insurance by, among other services, offering easily comparable and understandable information about health insurance options.” The Exchange works to meet these goals through the operation of a portal for individuals, families, and small groups to procure health insurance. The Exchange operates a marketplace for insurance carriers to sell Qualified Health Plans (QHP), which are plans certified by the Exchange. With few exceptions, QHPs must meet or exceed the Essential Health Benefits (EHB), which are defined according to federal regulations promulgated by the U.S. Department of Health and Human Services (HHS). These plans are made available to individuals, families, and small groups through the Exchange website.

Participation in the Exchange is voluntary for individuals and insurance carriers. However, individuals are mandated by federal law to acquire insurance coverage or be subject to a tax penalty. For individuals and households exceeding the income limitations for participation in Medicaid, cost-sharing plans and Advance Premium Tax Credits (APTC) are available for QHPs offered through the Exchange. The amount of cost-sharing and the value of the APTC are dependent on the projected income of the individual or household for the period of coverage. Individuals and households that exceed the income limitations of the cost-sharing plans and APTC can still purchase coverage through the Exchange. Cost-sharing and the APTC are only available for plans sold through the Exchange. Coverage sold outside of the Exchange does not qualify for the issuance of an APTC.

The Exchange website also operates as a portal for low income adults and families to apply for enrollment in Medicaid. Enrollment in Medicaid is limited to 185 percent of the established federal poverty limit. As of January 15, 2015, Medicaid subscribers represent approximately 81 percent of the subscribers on the Exchange.

Plans offered through the Exchange for small groups are limited to those businesses that employ 50 or fewer employees. Beginning January 1, 2016, the state option to treat as small employers those businesses that employ 50 or fewer employees will end and employers with up

to 100 employees will be allowed to purchase group plans through the Exchange on or before January 1, 2016. The small group plans are sold through the Small Business Health Options Program (SHOP). Tax credits may be available to small employers under certain conditions.

Funding

During the period under review, the Exchange was funded through a series of federal grants and cost reimbursements from the Department of Social Services (DSS). Initial funding for planning was awarded on September 29, 2010 for \$996,848 under a State Planning and Establishment Grant from the Centers for Medicare and Medicaid (CMS). Subsequent to the planning grant, the state was awarded a \$6.7 million Level I Establishment Grant on August 15, 2011 to design, develop, and implement the Exchange

In August 2012, through the Office of Policy and Management, the Exchange was awarded a \$1.5 million supplement to the Level I Establishment Grant. Also, in August 2012, the Exchange was awarded a Level II Establishment Grant for \$107.3 million. These funds represent the bulk of funds used to design, develop, and implement the infrastructure and administration necessary to oversee the Exchange. Subsequently, in August 2013, the Exchange received a supplement of approximately \$24.9 million to the Level II Establishment Grant.

In February 2013, the Exchange was awarded a federal grant of approximately \$2.1 million to operate the In-Person Assistor program. In September 2013, the Exchange received an amendment to the In-Person Assistor grant for \$497,741. The In-Person Assistor program supplies funds that support the activities of the in-person assistors, who are the individuals responsible for entering communities and soliciting membership in the Exchange.

The last federal award received during the audited period was in October 2013. The Exchange was awarded a new Level I Establishment Grant for approximately \$20.3 million. According to the Exchange's Fiscal Year 2014 Annual Report, these funds were awarded in order to stabilize operations through the first year enrollment and to meet federal compliance requirements that did not exist at the time of the Establishment Grant funding request."

At the board of directors meeting on May 16, 2013, the board voted to establish a marketplace assessment of 135 basis points, which is equivalent to 1.35 percent, on the earned premiums reported by insurance carriers offering individual and small group health and dental plans for calendar year 2014. On May 22, 2014, the board voted to maintain the same assessment rate of 135 basis points through calendar year 2015. The assessment of 135 basis points was increased to 165 basis points at the May 28, 2015 board of directors meeting for fiscal year 2016 and subsequent years. The Exchange reported that assessments for calendar year 2014 totaled approximately \$24.8 million. For calendar year 2015 the Exchange estimates assessment collections of approximately \$28.9 million.

Board of Directors

The first meeting of the Exchange Board of Directors occurred on September 15, 2011. Between December 2011 and June 2012, the board appointed Tia Cintron, who initially served as the Project Director, to serve as the Acting Chief Executive Officer (CEO). On July 3rd 2012, the board appointed Kevin Counihan to serve as the Exchange CEO. On August 27, 2014, the board appointed James Wadleigh, the Chief Information Officer, to serve as Acting CEO and on February 19, 2015, the board voted to make the appointment permanent.

Since the inception of the board, in fulfillment of the enabling legislation, major public policy items were discussed and decided upon in the course of the development of the Exchange. The major policies included: whether to merge or maintain separate exchanges for individuals and small employers; establishing which state insurance mandates would be recommended for inclusion as a part of the EHB; establishing an existing insurance plan as the benchmark silver plan; approving the standard plan templates that define out-of-pockets costs for all plans offered through the Exchange; establishing procedures used to approve a plan as a QHP for offer through the Exchange; and determining the manner through which the Exchange will become self-sustaining.

Financial Operations

Prior to the first meeting of the Exchange Board of Directors, the Connecticut Office of Policy and Management (OPM) took initial action to develop the Exchange. OPM hired Tia Cintron as the Project Director, established an administrative infrastructure, and executed contracts on behalf of the Exchange. On January 25, 2012, the Exchange executed a Memorandum of Understanding (MOU) with OPM to establish a liability account to which OPM could charge any expenditure incurred in providing these services.

The Exchange issued financial statements using the full accrual basis of accounting. The Exchange prepared its financial statements in accordance with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board (GASB). The independent certified public accounting firm based the conduct of its audit upon 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.

The following are a Statement of Net Position and Statement of Net Revenues, Expenses and Changes in Net Position. This financial information was obtained from the Exchange's audited financial statements for the fiscal years ended June 30, 2013, and 2012.

**Connecticut Health Insurance Exchange
Statement of Net Position**

	As of June 30, <u>2013</u>	As of June 30, <u>2012</u>
Assets		
Current Assets		
Cash and Cash Equivalents	\$ 4,994,339	\$ 1,534,341
Accounts Receivable	7,342,366	-
Prepaid Expenses	1,003,958	25,135
Total Current Assets	<u>13,340,663</u>	<u>1,559,476</u>
Noncurrent Assets		
Software Development in Progress	16,869,697	1,557,968
Equipment and Software, Net	7,017,837	38,943
Total Noncurrent Assets	<u>23,887,534</u>	<u>1,596,911</u>
Total Assets	<u>\$37,228,197</u>	<u>\$ 3,156,387</u>
Liabilities and Net Position		
Current Liabilities		
Accounts Payable – Current	\$ 112,509	\$ 1,081,093
Accrued Liabilities	9,773,138	45,622
Refundable Advances	30,811	432,761
Total Current Liabilities	<u>9,916,458</u>	<u>1,559,476</u>
Long term Liabilities		
Accounts Payable- Long Term	<u>3,424,205</u>	<u>-</u>
Total Liabilities	<u>13,340,663</u>	<u>1,559,476</u>
Net Position		
Invested in Capital Assets	<u>23,887,534</u>	<u>1,596,911</u>
Total Net Position	<u>23,887,534</u>	<u>1,596,911</u>
Total Liabilities and Net Position	<u>\$37,228,197</u>	<u>\$ 3,156,387</u>

**Connecticut Health Insurance Exchange
Statements of Revenue, Expenses and Changes in Net Position
For the Years Ended June 30, 2013 and 2012**

	<u>2013</u>	<u>2012</u>
Operating Revenues:		
Government Grants and Contracts	\$45,463,090	\$ 3,448,792
Other Income	513	-
	<hr/>	<hr/>
Total Revenues	45,463,603	3,448,792
	<hr/>	<hr/>
Operating Expenses:		
Wages	2,734,791	309,049
Fringe Benefits	626,199	79,796
Consultants	16,838,212	1,357,315
Equipment	217,628	7,280
Supplies	21,882	4,076
Travel	99,891	17,220
Administration	249,885	67,657
Maintenance	875,491	8,424
Depreciation and Amortization	1,509,001	1,064
	<hr/>	<hr/>
Total Operating Expenses	23,172,980	1,851,881
	<hr/>	<hr/>
Change in Net Position	22,290,623	1,596,911
Net Position, Beginning of Year	1,596,911	-
	<hr/>	<hr/>
Net Position, End of Year	<u>\$23,887,534</u>	<u>\$ 1,596,911</u>

For fiscal years 2012 and 2013, grant revenue was the only source of revenue for the Exchange. Federal grant awards were used to support the design, development, implementation, and operation of the state-based exchange.

Other Matters - Sustainability

Until January 2015, federal grants awarded to the Exchange were used to fund the design, development, and implementation of the Exchange, as well as continuing operations, such as executive compensation, rent, travel, and call center vendor payments. After January 2015, the Exchange is required to be self-sustaining. As such, federal grants may only be used to complete additional design, development, and implementation work at the Exchange. Operational costs must be paid for with collected assessment fees, cost reimbursements from DSS, and any additional funds the state makes available to the Exchange.

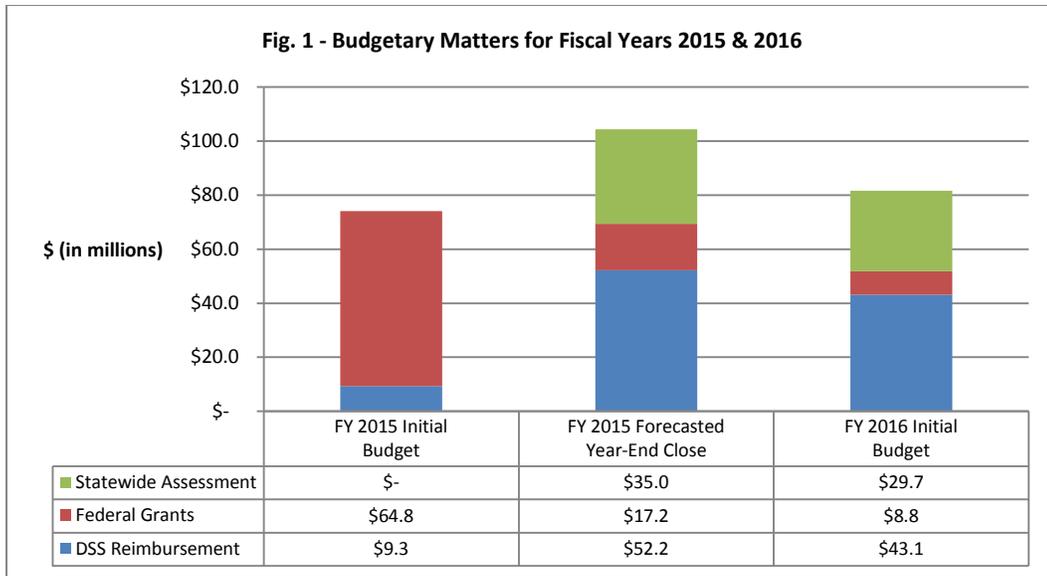
Marketplace Assessment

In order to fund ongoing operations, in January 2014, the Exchange began collecting a marketplace assessment on premiums for plans in the individual and small group markets as well as on earned premiums for dental plans in the state. The assessment for calendar years 2014 and 2015 was 135 basis points. At the May 28, 2015 meeting of the board of directors, board members voted in favor of increasing the marketplace assessment to a rate of 165 basis points for calendar years 2016 and beyond.

At the board of directors meeting in May 2014, management at the Exchange estimated that collected assessments for calendar years 2014 and 2015 would total approximately \$25.7 million and \$28.3 million, respectively. In the August 2014 board of directors meeting, management at the Exchange downwardly revised the estimates for assessment collections for 2014 and 2015. The revised assessment collections were presented as approximately \$23.7 million and \$23.9 million, respectively. In the May 2015 Finance Committee meeting, management at the Exchange reported that actual collections of assessments for 2014 totaled approximately \$24.8 million and estimated assessment collections for 2015 would equal approximately \$28.9 million. At the May 2015 board of directors meeting, members voted to increase the assessment for 2016 from 135 basis points to 165 basis points. The Exchange estimates that from approximately \$2,198 million in premiums from individual, small group, and dental insurance plans, the Exchange will collect approximately \$36.3 million in calendar year 2016.

Budgetary Matters for Fiscal Years 2015 & 2016

At the Finance Committee meeting in May 2014, management at the Exchange proposed a budget for fiscal year 2015 that included approximately \$74.1 million in expenditures with estimated reimbursement from DSS totaling approximately \$9.3 million. The forecast for fiscal year 2015 presented to the Finance Committee in May 2015, included expenditures of approximately \$108.6 million and estimated reimbursement from DSS of approximately \$56.4 million. The remaining \$52.2 million in expenditures would be paid for with approximately \$17.2 million in federal grants and \$35 million in state funds collected through the assessment during calendar years 2014 and 2015. Comparatively, the proposed fiscal year 2016 budget presented to the Finance Committee in May 2015 included budgeted expenditures of approximately \$81.7 million and estimated reimbursement from DSS of approximately \$43.1 million. The remaining \$38.5 million would be paid for with approximately \$8.8 million in federal grants and \$29.7 million in state funds collected through the assessment during calendar years 2014, 2015, and 2016. (See Figure 1)



Reimbursements from DSS are based on a memorandum of agreement (MOA) between DSS and the Exchange. These reimbursements are for the actual costs of the design, development, and implementation as well as the ongoing maintenance and operation of these systems. The payments to the Exchange from DSS are partially reimbursed by the federal government as part of the Medicaid program. The reported reimbursements collected by the Exchange for fiscal years 2013 and 2014 totaled approximately \$4.9 million and \$22.3 million, respectively. Estimated reimbursements for fiscal years 2015 and 2016 total approximately \$56.4 million and \$43.1 million. The projected \$126.9 million in DSS reimbursements to be received by the Exchange between FY 2013 and FY2016 is estimated to represent, at most, approximately \$104.4 million in federal funds reimbursed to the state, and at least approximately \$22.5 million in state dollars as required by the Medicaid program.

Whether full funding is received for the projects as budgeted for fiscal year 2016 is unknown as of the report date. This is because federal funding for the DSS reimbursements to the Exchange is subject to a grants management process located at DSS. Management at the Exchange stated that the grants management process at DSS has not yet resulted in federal funds being made available to support reimbursement payments for system design, development, and implementation projects included in the budget for fiscal year 2016. As such, management at the Exchange has delayed the initiation of some projects that are impacted by the availability of reimbursement funds.

STATE AUDITORS' FINDINGS AND RECOMMENDATIONS

Information Security

Background: In June 2014, the Connecticut Health Insurance Exchange suffered a publicized data security breach affecting 400 lines of personally identifiable information (PII) of Exchange customers. The subsequent investigation by the contractor and the Exchange found that the call center contractor, Maximus, was not abiding by its policies and procedures. As part of the response by the Exchange, a third party security firm was hired to perform a security assessment of the Exchange headquarters, two storefronts, and certain contractor sites.

The third party security expert performed what was described as a “Snapshot Assessment” that identified “high-level vulnerabilities and risks that need immediate attention, and provide[d] recommendations, principles, physical safeguards and guidelines designed to assist AHCT in identifying cost-effective security solutions.”

Criteria: The Committee of Sponsoring Organizations (COSO) in the Integrated Framework of Internal Control ascribes two principles to the Monitoring component of the internal control framework. The relevant principle states that “the organization evaluates and communicates internal control deficiencies in a timely manner to those parties responsible for taking corrective action, including senior management and the board of directors, as appropriate.” Appropriate actions may include, for example, enhancements in the protection of PII as outlined by the National Institute of Standards and Technology (NIST).

The NIST in its Special Publication 800-122 *Guide to Protecting the Confidentiality of Personally Identifiable Information (PII)* states that “PII should be protected through a combination of measures, including operational safeguards, privacy-specific safeguards, and security controls.” The NIST identifies safeguards such as policy and procedure creation as well as awareness efforts, education, and training.

Condition: In response to the information security breach in June 2014 by an employee of the contractor, Maximus, the Exchange procured the services of a third party security consultant who performed a security assessment in January 2015. Upon the request of the auditors, the Exchange provided copies of the individual assessments as well as the executive summary that was prepared by the third party security expert.

The third party security expert noted several deficiencies in the security of the Exchange. In addition to several findings and recommendations related to the physical security of the buildings and information assets, the

security expert included several observations related to the security environment:

- The security expert requested approximately 25 documents for review. The Exchange was only able to provide approximately 5 and several emails. The security expert observed that the Information Security Policies and Procedure document, as well as other documents “require a considerable amount of rewriting.”
- Interviews performed by the security expert revealed that “there was uncertainty as to where Policies and Procedures and Plans reside and which staff had ownership/responsibility.” The security expert stated that “most interviewees stated that they have not read the few available security policies and procedures, rely on word of mouth or email reminders from staff for dissemination of information and received verbal training session.”
- These interviews led the security expert to conclude that there appeared to be a lack of security training, awareness, and responsibilities because, when most interviewees were asked about critical assets, high-risk or sensitive areas, and physical security, interviewees referred to another person/department as having responsibility.

Following the review of the assessment prepared by the security expert, the auditors requested a copy of corrective actions planned, as well as any corrective actions already completed by the Exchange in order to respond to the findings, recommendations, and observations of the security expert. The Exchange was unable to provide evidence that it had planned and/or completed corrective action on the security expert’s findings and recommendations prior to our request dated May 28, 2015.

Effect: In the absence of a management control system that holds the organization accountable for responding in a timely manner to reported deficiencies in the security of the Exchange, the Exchange cannot provide assurance that the PII in its possession is secure.

Cause: It is unknown why the Exchange could not provide evidence of planned and/or completed corrective action in response to the findings, recommendations, and observations made by the security expert.

Recommendation: The Connecticut Health Insurance Exchange should develop a management control system that holds the organization accountable for responding in a timely manner to reported deficiencies in the security of the Exchange, in order to provide assurance that the PII in its possession is secure. (See Recommendation 1.)

Agency Response: “Access Health CT (AHCT) agrees and has thoughtfully considered its management control system to maintain the security of data in our possession. AHCT hired Center Point Security Associates in January 2015 to conduct a physical security assessment of its facilities, including Maximus locations. As a result of Center Point’s physical security assessment, as well as other prior initiatives, AHCT has taken many steps to improve security all with the goal of better protecting consumers’ personally identifiable information (PII). These include:

Call Center Vendor - Maximus made significant changes to its physical security, and AHCT’s Privacy Officer has worked with Maximus management to improve and monitor security practices, with the goal of preventing breaches and holding the vendor accountable.

Structural - leased a separate, secure office space in the same building for the Issue Resolution Department (IRD), which deals with consumers and handles PII.

Policies - AHCT’s security policies are described in its employee handbook, which all employees are required to read and sign on their first day of employment. AHCT employees are also required to complete an annual IT security training course, administered by the Connecticut Department of Administrative Services, Bureau of Enterprise and Systems Technology.

Training - The Privacy Officer has conducted training sessions for employees and contractors regarding security and policies, particularly concerning handling of PII.

Monitoring - The Privacy Officer and IRD supervisors vigilantly monitor the protection of PII, and conduct daily checks for unsecured PII in AHCT’s offices. Any unsecured PII found is either secured or destroyed. The Privacy Officer addresses any problems that may arise with employees and staff teams.

AHCT is contracting with a security vendor to provide a full security audit of AHCT’s office and the State of Connecticut Data Center at Groton, Connecticut pursuant to federal government requirements.

A corrective action plan has been provided.”

Auditors’ Concluding

Comment:

Subsequent to the presentation of the recommendation, the Exchange provided us with a corrective action plan. Our review of the corrective

action plan found that, for those corrective actions considered cost-prohibitive, the corrective action plan lacked supporting documentation such as a cost-benefit analysis. Also not found in the corrective action plan was a formal review and approval by management of the corrective actions taken or not taken in response to the security assessment recommendations.

Availability of Exchange Board Meeting Materials and Minutes

Criteria: Section 38(a)-1090(b) of the General Statutes states “the exchange shall be subject to the Freedom of Information Act, as defined in section 1-200.”

Section 1-225(a) of the General Statutes covers statewide freedom of information laws (FOI) and requires that “The meetings of all public agencies, except executive sessions...shall be open to the public...Not later than seven days after the date of the session to which such minutes refer, such minutes shall be available for public inspection and posted on such public agency’s Internet web site, if available...”

Condition: Early audit testing recorded three instances in which board meeting minutes were not posted to the agency’s website by the seventh day as prescribed in the state statute. Exchange staff confirmed that board meeting minutes were not uploaded to the agency website within the required seven days.

On February 23, 2015, the auditors requested the unreleased minutes and meeting materials for the December 4, 2014 Finance Committee meeting. The Exchange would not release the documents into our custody. The Exchange stated that the minutes and meeting materials were drafts and would not be posted to its website until the next Finance Committee meeting in May 2015, at which time the minutes would be approved and finalized. This represents an approximate six-month delay between when the meeting occurred and when the minutes were planned to be released. The Exchange did, however, allow the auditors to view the materials in its office, but did not allow us to retain copies.

The meeting of the Finance Committee occurred on May 12, 2015, and the draft meeting minutes for the December 4, 2014 meeting were posted to the website by that time. However, the Exchange did not post to the Exchange website the presentation that accompanies the minutes, as of June 3, 2015. In addition, as of June 3, 2015 the meeting minutes from the May 12, 2015 meeting were not posted to the website.

Effect: The delayed release of board minutes reduces the public’s ability to perform its watchdog role in a timely manner over board members’

governance responsibilities, management oversight, and decisions regarding matters of public interest.

Cause: The Exchange stated that the minutes and meeting materials were drafts and could not be released until finalized at the next Finance Committee meeting. However, the Exchange did not respond to our request for a legal rationale for this position. In the past, the Exchange had posted to its website meeting minutes that were finalized as well as in a draft status.

The Exchange also cited turnover in the legal unit as a cause for the delayed posting of meeting minutes. However, the Exchange had posted to its website the meeting minutes from other committee and board meetings that occurred subsequent to the December 4, 2014 Finance Committee meeting.

Recommendation: The Connecticut Health Insurance Exchange should take the necessary steps to ensure that meeting minutes and related materials are released within the timeframe required by state statute. (See Recommendation 2.)

Agency Response: “AHCT agrees and will make its best effort to post minutes and materials to our web site as soon as possible. Minutes will be posted in draft form until they are approved at the next meeting. After approval, final minutes will be posted to the Exchange web site. The Exchange believes it provides transparency to the public by making meetings open to the public and viewable for live or replay broadcast on the Connecticut Network website at www.ct-n.com.”

Surety Bond Requirement

Criteria: Section 38a-1081(c)(8) of the General Statutes requires that “Each board member shall execute a surety bond in the penal sum of fifty thousand dollars, or, in lieu thereof, the chairperson of the board shall execute a blanket position bond covering each board member, the chief executive officer and the employees of the exchange, each surety bond to be conditioned upon the faithful performance of the duties of the office or offices covered, to be executed by a surety company authorized to transact business in this state as surety and to be approved by the Attorney General and filed in the office of the Secretary of the State. The cost of each such bond shall be paid by the exchange.

Condition: The Exchange did not acquire the surety bonds or a blanket position bond as required by statute.

Subsequent to the audited period in August 2014, the Exchange procured a “faithful performance” rider to its crime insurance in lieu of the required surety bonds or blanket position bond.

The office of the Attorney General is determining the legal sufficiency of the amended insurance policy in meeting the surety bond requirement, as the Exchange is one of several quasi-public agencies statewide that has failed to acquire the statutorily required surety bonds.

Effect: The Exchange was not in compliance with its enabling statute. The legal sufficiency of the procured “faithful performance” rider to the existing crime policy is unknown.

Cause: It is the Exchange’s stance that the required blanket position bond was not procured because a blanket position bond was not readily available to a new organization. It is also the Exchange’s stance that procuring individual surety bonds for each board member would be impractical. The Exchange believes that the process of underwriting individual board members, as well as the liability associated with the required \$50,000 penal sum, would serve as a disincentive for current and prospective board members to serve on the board.

Recommendation: The Connecticut Health Insurance Exchange should respond with appropriate action based upon the opinion of the office of the Attorney General on the legal sufficiency of the “faithful performance” rider. (See Recommendation 3.)

Agency Response: “AHCT agrees. There are three ways to meet the Surety legal requirements – individual bonds, a blanket bond and a faithful performance endorsement to the crime insurance policy. The former two options are bonds and, if there is a loss and payout by the surety company, the principal will be required to reimburse the surety company. Due to the newness of the Exchange, a blanket bond could not be obtained and would have required posting of collateral. The alternative of individual bonds was not considered viable because these bonds require complicated underwriting of individuals for bond applications and administration.

The Crime Policy endorsement for “Faithful Performance” was considered the best alternative. The crime policy will payout, subject to a deductible, the entire loss up to the policy limit without any reimbursement by the principal. Unlike bonds, it is an indemnification without a recovery, subject to retentions and provided the needed coverages with continuity over time.

The crime policy endorsement is unencumbered by exclusions. The coverage language is sufficient to meet the intent and requirement of the law and the limit of insurance of \$3,000,000 with a single loss deductible of \$15,000 more than meets the limits required by law.

The crime insurance policy was amended to include the “Faithful Performance of Duty Endorsement” on October 18, 2013; and it is written with a prior act inception date of March 22, 2012, making it retroactive.

When the opinion of the office of the Attorney General on the legal sufficiency of the “faithful performance” rider is received, the Exchange will respond with appropriate action.”

RECOMMENDATIONS

This was our initial audit of the Connecticut Health Insurance Exchange. As such, there were no prior audit recommendations requiring repetition.

Current Audit Recommendations:

- 1. The Connecticut Health Insurance Exchange should develop a management control system that holds the organization accountable for responding in a timely manner to reported deficiencies in the security of the Exchange, in order to provide assurance that the PII in its possession is secure.**

Comments:

The Exchange procured the services of a third party security expert to evaluate its security. The security expert issued a report in January 2015 to the Exchange with a number of findings and recommendations. The Exchange was unable to provide us with a corrective action plan that directly and individually addressed each of the third party security expert’s findings and recommendations. In the absence of a management control system that holds the organization accountable for responding in a timely manner to reported deficiencies in the security of the Exchange, the Exchange cannot provide assurance that the PII in its possession is secure.

- 2. The Connecticut Health Insurance Exchange should take the necessary steps to ensure that meeting minutes and related materials are released within the timeframe required by state statute.**

Comments:

The Exchange stated that the minutes and meeting materials were drafts and would not be released until finalized at the next Finance Committee meeting. However, this position has no basis in statute and the Exchange could not provide a legal rationale for declining to post the minutes. In the past, the Exchange has posted to its website meeting minutes that were not finalized and were in a draft status.

The Exchange also cited turnover in the legal unit. However, the Exchange has posted to its website the meeting minutes of other committee and board meetings that have occurred subsequent to the December 4, 2014 Finance Committee meeting.

- 3. The Connecticut Health Insurance Exchange should respond with appropriate action based upon the opinion of the office of the Attorney General on the legal sufficiency of the “faithful performance” rider.**

Comments:

The Exchange was not in compliance with its enabling statute. However, it is the position of the Exchange that compliance with this statute is difficult due to marketplace conditions and because compliance with the statute may serve as a disincentive for current and prospective board members to serve on the board.

CONCLUSION

We wish to express our appreciation for the courtesies and cooperation extended to our representatives by the officials and employees of the Connecticut Health Insurance Exchange during our examination.

State Auditor John C. Geragosian recused himself from reviewing and signing the audit report in order to avoid the possible appearance of a conflict of interest.



Logan R. Johnson
Auditor II

Approved:



Robert M. Ward
Auditor of Public Accounts