

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**THE DISTRICT OF COLUMBIA CLAIMED
ALLOCATED COSTS TO ITS
ESTABLISHMENT GRANTS IN
ACCORDANCE WITH FEDERAL
REQUIREMENTS**

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OFFICE OF AUDIT SERVICES FINDINGS AND OPINIONS

The designation of financial or management practices as questionable, a recommendation for the disallowance of costs incurred or claimed, and any other conclusions and recommendations in this report represent the findings and opinions of OAS. Authorized officials of the HHS operating divisions will make final determination on these matters.

The District of Columbia allocated costs to its establishment grants in accordance with Federal requirements.

INTRODUCTION

WHY WE DID THIS REVIEW

The Patient Protection and Affordable Care Act (ACA)¹ established health insurance exchanges (commonly referred to as “marketplaces”) to allow individuals and small businesses to shop for health insurance in all 50 States and the District of Columbia (the District). The ACA provided grants² to States for planning, establishing, and early operation of marketplaces.

The District’s Health Benefit Exchange (District marketplace) is an independent unit of the District’s government. The District’s Department of Health Care Finance (State agency) initially served as the lead agency for District marketplace establishment grants. The establishment grant funds have since been transferred to the District marketplace, which is now responsible for complying with applicable requirements.

This review is part of an ongoing series of reviews of establishment grants for 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 establishment grants is part of a larger body of ACA work, which also includes audits of State marketplaces’ internal controls over determining individuals’ eligibility for enrollment in health insurance plans offered through the marketplaces. We also plan on conducting additional audit work at the District marketplace. See “Affordable Care Act Reviews” on the OIG Web site for a list of related OIG reports on ACA programs.³

OBJECTIVE

Our objective was to determine whether the District marketplace allocated costs for establishing a health insurance marketplace to its establishment grants⁴ in accordance with Federal requirements.

¹ P.L. No. 111-148 (Mar. 23, 2010), as amended by the Health Care and Education Reconciliation Act of 2010, P.L. No. 111-152 (Mar. 30, 2010), collectively referred to as “ACA.”

² Under § 1311(a) of the ACA, the Centers for Medicare & Medicaid Services (CMS) provided several different funding opportunities available to States, including Early Innovator Cooperative Agreements, Planning and Establishment Grants, and Establishment Cooperative Agreements. See Appendix A for more detailed information about the types of grants and cooperative agreements available to States related to the establishment of a marketplace.

³ <http://oig.hhs.gov/reports-and-publications/aca/>.

⁴ For purposes of this report, we reviewed Level One and Level Two grants. See Appendix A for more detailed information about Level One and Level Two grants.

BACKGROUND

Patient Protection and Affordable Care Act

Within the Department of Health and Human Services' (HHS) CMS, the Center for Consumer Information and Insurance Oversight (CCIIO)⁵ is responsible for implementing many of the requirements of the ACA, including overseeing the implementation of provisions related to the marketplaces and the private health insurance plans offered on the marketplaces known as qualified health plans (QHPs).

A marketplace performs many functions, such as certifying QHPs; determining eligibility for premium tax credits and cost-sharing reductions; responding to consumer requests for assistance; and providing a Web site and written materials that individuals can use to assess their eligibility, evaluate health insurance coverage options, and enroll in selected QHPs (ACA, § 1311(d)(4)). Additionally, a marketplace helps a State to coordinate eligibility for and enrollment in other State-based public health care programs, such as Medicaid and the Children's Health Insurance Program (CHIP).

Federal Requirements Related to Cost Allocation and Enhanced Funding for Marketplaces

CCIIO's Establishment Grant Funding Opportunity Announcement and the District marketplace Notice of Award⁶ require the District marketplace to allocate shared costs among Medicaid, CHIP, and the District marketplace consistent with cost allocation principles.⁷ CMS provides additional guidance to States that is specific to cost allocation for the marketplaces in *Guidance for Exchange and Medicaid Information Technology (IT) Systems* (version 2.0, May 2011) and *Supplemental Guidance on Cost Allocation for Exchange and Medicaid Information Technology (IT) Systems* (issued Oct. 2012). Primarily, CMS guidance says, "States are expected to update their cost allocation methodology and plan based on updated or better data . . ."⁸

⁵ To implement and oversee the ACA's marketplace and private health insurance requirements, HHS established the Office of Consumer Information and Insurance Oversight (OCIIO) in April 2010 as part of the HHS Office of the Secretary. In January 2011, OCIIO was transferred to CMS under a new center named CCIIO (76 Fed. Reg. 4703 (Jan. 26, 2011)). In this report, we use "CCIIO" to refer to both OCIIO and CCIIO.

⁶ The State agency served as the lead agency until the funds were transferred to the District marketplace on May 12, 2014.

⁷ Office of Management and Budget (OMB) Circular No. A-87, *Cost Principles for State, Local, and Tribal Government*, was relocated to 2 CFR part 225 and made applicable by 45 CFR § 92.22(b). After our audit period, OMB consolidated and streamlined its guidance, which is now located at 2 CFR part 200. HHS has codified the guidance in regulations found at 45 CFR part 75.

⁸ After the end of our audit period, CMS issued further guidance, which states: "CMS strongly recommends that states continue to reassess their cost allocation on an annual basis and/or if there is a substantive change in program participation..." or whenever a State seeks additional funding. *FAQs on the Use of 1311 Funds, Project Periods, and updating the cost allocation methodology* (issued Sept. 2014).

State Medicaid agencies must submit Advance Planning Documents (APDs) to obtain enhanced Federal funding for Medicaid IT system projects related to Medicaid eligibility and enrollment, including eligibility and enrollment through a marketplace system (42 CFR § 433.112).

Health Insurance Marketplace Programs

The ACA provides for funding assistance⁹ to a State for the planning and establishment of a marketplace that incorporates eligibility determination and enrollment functions for all consumers of participating programs, such as Medicaid and private health insurance offered through a marketplace (ACA, § 1311).

See Appendix A for details about the Federal assistance available to States to establish marketplaces.

The District Marketplace

The District chose to establish and operate its own State marketplace. Because the District marketplace is a single entity supporting the shared needs of multiple programs, the State agency developed an allocation method according to the IT requirements of those programs and the anticipated use of the marketplace. The State agency assigned IT requirements to one of three categories: the District marketplace, Medicaid, or shared services. IT requirements expected to only benefit the District marketplace or Medicaid were assigned to their respective categories; IT requirements expected to benefit both categories were assigned to shared services. The State agency calculated the following allocation rates for IT costs based on the number of requirements it assigned to each category: 67 percent for the District marketplace, 30 percent for Medicaid, and 3 percent for the District's Department of Human Services. This allocation methodology was approved as part of the State agency's Annual Planning/Implementation Advance Planning Update¹⁰ and the grant applications.

As of December 31, 2014, CCHIO awarded the State agency and/or the District marketplace one planning grant and five establishment grants totaling \$186.3 million. Of the total amount awarded, the State agency expended \$67 million through June 30, 2014, to establish the District marketplace.

See Appendix B for details about grants awarded for planning, establishing, and early operation of the District marketplace as of December 31, 2014.

⁹ Projects and programs are carried out under a variety of types of grants, including the use of a specific type of grant known as a cooperative agreement. When a Federal agency expects to be substantially involved in carrying out the project or program, it awards a cooperative agreement (*HHS Grants Policy Statement*, p. ii).

¹⁰ 45 CFR part 95 subpart F.

HOW WE CONDUCTED THIS REVIEW

We reviewed \$17.6 million in costs allocated to the establishment grants from August 2011 through June 2014. Of this \$17.6 million, \$14.1 million represented shared IT costs allocated to the establishment grants based on the cost allocation methodology, and included contractual services only. The remaining \$3.5 million represented direct costs that were solely attributable to the marketplace and included \$1.6 million in salaries and fringe benefits, \$1.3 million in contractual services, and \$0.6 million in equipment and other services. We reviewed the District marketplace's internal controls for allocating costs to establishment grants and to Medicaid.

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 C contains the details of our scope and methodology.

RESULTS OF REVIEW

For the \$17.6 million that we reviewed, the District marketplace allocated and claimed all (1) shared IT costs for establishing a health insurance marketplace in accordance with the CMS-approved methodology and (2) direct costs in accordance with Federal requirements. Therefore, we have no recommendations.

APPENDIX A: FEDERAL GRANTS TO STATES FOR PLANNING, ESTABLISHING AND EARLY OPERATION OF MARKETPLACES

CCIIO used a phased approach to provide States with resources for planning and implementing marketplaces. CCIIO awarded States and one consortium of States planning and establishment grants, including early innovator cooperative agreements, and two types of marketplace establishment cooperative agreements.

PLANNING AND ESTABLISHMENT GRANTS

CCIIO awarded planning and establishment grants¹¹ to assist States with initial planning activities related to the potential implementation of the marketplaces. States could use these funds in a variety of ways, including to assess current IT systems; to determine the statutory and administrative changes needed to build marketplaces; and to coordinate streamlined eligibility and enrollment systems across State health programs, including Medicaid and CHIP. In September 2010, CCIIO awarded grants in amounts up to a maximum of \$1 million per State to 49 States and the District of Columbia. (Alaska did not apply for a planning and establishment grant.)

EARLY INNOVATOR COOPERATIVE AGREEMENTS

CCIIO awarded early innovator cooperative agreements¹² to States to provide them with incentives to design and implement the IT infrastructure needed to operate marketplaces. These cooperative agreements rewarded States that demonstrated leadership in developing cutting-edge and cost-effective consumer-based technologies and models for insurance eligibility and enrollment for marketplaces. The “early innovator” States received funding to develop IT models, “...building universally essential components that can be adopted and tailored by other States.” In February 2011, CCIIO awarded 2-year early innovator cooperative agreements to six States and one consortium of States. Awards ranged from \$6.2 million (Maryland) to \$59.9 million (Oregon).

MARKETPLACE ESTABLISHMENT COOPERATIVE AGREEMENTS

CCIIO designed establishment cooperative agreements¹³ to support States’ progress toward establishing marketplaces. Establishment cooperative agreements awarded through December 31, 2014, were available for States seeking (1) to establish a State-based marketplace,

¹¹ CCIIO, State Planning and Establishment Grants for the Affordable Care Act’s Exchanges, Funding Opportunity, Number: IE-HBE-10-001, July 29, 2010.

¹² CCIIO, Cooperative Agreements to Support Innovative Exchange Information Technology Systems, Funding Opportunity Number: TBA, October 29, 2010. In February 2011, CMS announced that it had awarded seven early innovator cooperative agreements. The cooperative agreements totaled \$249 million.

¹³ CCIIO, Cooperative Agreement to Support Establishment of State-Operated Health Insurance Exchanges, Funding Opportunity Number: IE-HBE-11-004, November 29, 2011, and Cooperative Agreement to Support Establishment of the Affordable Care Act’s Health Insurance Exchanges, Funding Opportunity Number: IE-HBE-12-001, December 6, 2013.

(2) to build functions that a State elects to operate under a State partnership marketplace, and (3) to support State activities to build interfaces with the federally facilitated marketplace. Cooperative agreement funds were available for approved and permissible establishment activities and could include startup year expenses to allow outreach, testing, and necessary improvements during the startup year. In addition, a State that did not have a fully approved State-based marketplace on January 1, 2013, could have continued to qualify for and receive establishment cooperative agreement awards in connection with its activities related to establishment of the federally facilitated marketplace or State partnership marketplace, subject to certain eligibility criteria. States were eligible for multiple establishment cooperative agreements.

There were two categories of establishment cooperative agreements: Level One and Level Two. Level One establishment cooperative agreements were open to all States, whether they were (1) participating in the federally facilitated marketplace (including States collaborating with the federally facilitated marketplace through the State partnership model) or (2) developing a State-based marketplace. All States could have applied for Level One establishment cooperative agreements, including those that previously received exchange planning and establishment grants. Level One award funds were available for up to 1 year after the date of the award.

Level Two establishment cooperative agreements were available to States, including those that previously received exchange planning and establishment grants. Level Two establishment cooperative agreement awards provided funding for up to 3 years after the date of the award. These awards were available to States that could demonstrate that they had (1) the necessary legal authority to establish and operate a marketplace that complies with Federal requirements available at the time of the application, (2) established a governance structure for the marketplace, and (3) submitted an initial plan discussing long-term operational costs of the marketplace.

States could have initially applied for either a Level One or a Level Two establishment cooperative agreement. Those that had received Level One establishment cooperative agreements could have applied for another Level One establishment cooperative agreement by a subsequent application deadline. Level One establishment grantees also could have applied for a Level Two establishment cooperative agreement provided the State had made sufficient progress in the initial Level One establishment project period and was able to satisfy the eligibility criteria for a Level Two establishment cooperative agreement.

In determining award amounts, CCIIO looked for efficiencies and considered whether the proposed budget would be sufficient, reasonable, and cost effective to support the activities proposed in the State's application. According to the Funding Opportunity Announcement, the cooperative agreements funded costs only for establishment activities that were integral to marketplace operations and meeting marketplace requirements, including those defined in existing and future guidance and regulations issued by HHS. A marketplace must use ACA, section 1311(a), funds consistent with ACA requirements and related guidance from CCIIO. States must ensure that their marketplaces were self-sustaining beginning on January 1, 2015 (ACA, § 1311(d)(5)(A)).

**APPENDIX B: FEDERAL GRANTS AWARDED FOR PLANNING, ESTABLISHING
AND EARLY OPERATION OF THE DISTRICT MARKETPLACE
AS OF DECEMBER 31, 2014**

The following table summarizes the grants awarded by CCIIO to support the planning, establishing, and early operation of the District marketplace and expenditures allocated to these grants.

Grant Number	Award Period¹⁴	Award Type	Award Total	Marketplace Expenditures¹⁵
6 HBEIE100026	September 30, 2010– May 31, 2012	Planning & Establishment	\$999,364	\$999,364
6 HBEIE110079	August 15, 2011– August 13, 2013	Level One	\$8,200,716	\$8,200,716
6 HBEIE120133	September 27, 2012– September 26, 2015	Level Two	\$89,954,422	\$57,795,473
6 HBEIE140202	July 24, 2014– December 31, 2015	Level One	\$31,525,096	\$0
6 HBEIE140203	October 23, 2013– October 22, 2015	Level Two	\$33,579,235	\$0
6 HBEIE150214	December 22, 2014– December 21, 2015	Level One	\$22,057,941	\$0
Total			\$186,316,774	\$66,995,553

¹⁴ These awards include no-cost extensions.

¹⁵ Expenditures through June 30, 2014.

APPENDIX C: AUDIT SCOPE AND METHODOLOGY

SCOPE

We reviewed \$17.6 million in costs allocated to the Level One and Level Two establishment grants from August 2011 through June 2014. Of this \$17.6 million, \$14.1 million represented shared IT costs allocated to the establishment grants based on the cost allocation methodology, and included contractual services only. The remaining \$3.5 million represented direct costs that were solely attributable to the marketplace, and included \$1.6 million in salaries and fringe benefits, \$1.3 million in contractual services, and \$0.6 million in equipment and other services. We limited our review of internal controls to the District marketplace's systems and procedures for allocating costs to the establishment grants and to Medicaid.

We conducted our fieldwork at the District marketplace and State agency's offices in the District from July 2014 through December 2014.

METHODOLOGY

To accomplish our objective, we:

- reviewed applicable Federal laws, regulations, and guidance;
- reviewed the State agency's cooperative agreement application packages;
- reviewed CCIIO's Funding Opportunity Announcements and Notice of Grant Awards terms and conditions;
- reviewed the State agency's policies and procedures for financial management;
- interviewed State agency and District marketplace officials to gain an understanding of the District's accounting system, including its cost allocation methodology, and invoice approval process, as well as the District's prepayment approval process for contractual services;¹⁶
- obtained expenditure reports for the period October 2010 through October 2014;
- obtained report of draw-downs of grant funds for the period June 2011 through February 2015;
- performed tests, such as comparing cash drawdowns to the Federal Payment Management System reports and expenditures to Federal financial reports, to determine whether the detailed general ledger reports were reliable and complete;

¹⁶ We did not assess the technical sufficiency for the contractual service work performed. We plan on conducting additional audit work at the District marketplace to assess the sufficiency of the contractual services.

- analyzed the general ledger reports to obtain an understanding of the information that the State agency used to claim expenditures for Federal reimbursement;
- judgmentally selected transactions totaling \$17,535,493, which included \$14,057,324 in allocated costs and \$3,478,169 in direct costs;
- assessed whether the \$14,057,324 in selected transactions were allocated by the District according to the approved cost allocation methodology; and
- discussed the results of our review with the State agency and the District marketplace.

We conducted this performance audit in accordance with generally accepted government accounting 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.