

Audit Report

Maryland Health Insurance Plan

March 2017



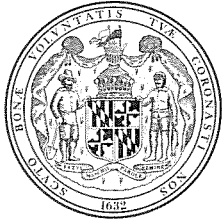
OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

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DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

Warren G. Deschenaux
Executive Director

Thomas J. Barnickel III, CPA
Legislative Auditor

March 23, 2017

Senator Craig J. Zucker, Co-Chair, Joint Audit Committee
Delegate C. William Frick, Co-Chair, Joint Audit Committee
Members of Joint Audit Committee
Annapolis, Maryland

Ladies and Gentlemen:

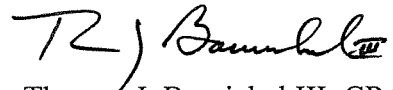
We have conducted a fiscal compliance audit of the Maryland Health Insurance Plan (MHIP) for the period beginning January 13, 2015 and ending July 1, 2016, the effective date of the law that terminated MHIP. MHIP was an independent unit of State government primarily responsible for providing comprehensive health benefits to medically uninsurable residents of the State. MHIP also oversaw the Senior Prescription Drug Assistance Program (SPDAP). SPDAP provided subsidies to reduce the out-of-pocket costs for low and moderate income Medicare recipients enrolled in the Medicare Part D prescription drug coverage.

MHIP medical plans closed to new enrollment effective December 31, 2013 and coverage for all enrollees ended as of December 31, 2014. Claim payments for services incurred prior to the termination of coverage continued to be processed. Effective July 1, 2016, MHIP's employees, property, assets, liabilities, obligations, and credits were transferred to the Maryland Health Benefits Exchange (MHBE). Similarly, employees, property, assets, liabilities, obligations, and credits directly related to SPDAP were transferred to the Department of Health and Mental Hygiene (DHMH). Specifically, remaining funds totaling \$61.4 million were transferred to MHBE and funds totaling \$125.1 million (including \$7.1 million related to SPDAP) were transferred to DHMH to complete the termination of MHIP.

Our audit did not disclose any findings that warrant mention in this report.

We wish to acknowledge the cooperation extended to us during the course of this audit by MHBE and DHMH.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "TJ Barnickel III". The signature is written in a cursive style with a large initial "TJ" and a stylized "Barnickel III".

Thomas J. Barnickel III, CPA
Legislative Auditor

Background Information

Agency Responsibilities

The Maryland Health Insurance Plan (MHIP) was an independent unit of State government until its closure, effective July 1, 2016. Through its medical plans, MHIP's goal was to provide access to affordable, comprehensive health benefits to medically uninsurable residents of the State. MHIP also oversaw the administration of State pharmaceutical assistance through the Senior Prescription Drug Assistance Program (SPDAP). SPDAP provides subsidies to reduce the out-of-pocket costs for low and moderate income Medicare recipients enrolled in the Medicare Part D prescription drug coverage.

Chapter 159, Laws of Maryland, 2013 closed MHIP medical plans to new enrollment as of December 31, 2013 because of the implementation of the Maryland Health Benefit Exchange. Coverage for all enrollees ended as of December 31, 2014, and claim payments for services incurred prior to the termination of coverage continued to be processed. Chapter 321, Laws of Maryland, 2016 terminated MHIP effective July 1, 2016. At that time, its remaining employees, property, assets, liabilities, obligations, and credits were transferred to the Maryland Health Benefits Exchange (MHBE). Similarly, employees, property, assets, liabilities, obligations, and credits directly related to SPDAP were transferred to the Department of Health and Mental Hygiene (DHMH). Specifically, remaining funds totaling \$61.4 million were transferred to MHBE and funds totaling \$125.1 million (including \$7.1 million related to SPDAP) were transferred to DHMH to complete the termination of MHIP.

According to its audited financial statements, MHIP's fiscal year 2016 receipts totaled \$19.5 million and disbursements totaled \$14.9 million. The receipts primarily related to premium taxes received by electronic funds transfer from a non-profit health services company for SPDAP and disbursements primarily related to subsidies for SPDAP.

Financial Statement Audits

MHIP engaged an independent accounting firm to perform audits of its statutory financial statements for the fiscal years ended June 30, 2016 and 2015. In the related audit reports, the firm stated that MHIP's financial statements presented fairly, in all material respects, the admitted assets, liabilities, and net assets as of June 30, 2016 and 2015 and the results of its operations and cash flows for the years then ended, on the basis of accounting practices prescribed or permitted by the Maryland Insurance Administration.

Status of Findings From Preceding Audit Report

Our audit included a review to determine the status of the two findings contained in our preceding audit report dated February 16, 2016. We determined that MHIP satisfactorily addressed one of these findings. The remaining finding related to obtaining an independent review of the claims management system used by the administrative service organization operating the MHIP medical plans. We noted that, although efforts were made to address this issue, these efforts were unsuccessful. Considering MHIP closed on July 1, 2016, no further action for this finding appears warranted.

Findings and Recommendations

Our audit did not disclose any significant deficiencies in the design or operation of MHIP's internal control. Our audit also did not disclose any significant instances of noncompliance with applicable laws, rules, or regulations. A less significant finding that did not warrant inclusion in this report was communicated to the Department of Health and Mental Hygiene (DHMH), which is currently responsible for the Senior Prescription Drug Assistance Program.

A draft copy of this report was provided to DHMH. Since there are no recommendations in this report, a written response was not necessary.

Audit Scope, Objectives, and Methodology

We have conducted a fiscal compliance audit of the Maryland Health Insurance Plan (MHIP) for the period beginning January 13, 2015 and ending June 30, 2016. The audit was conducted 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.

As prescribed by the State Government Article, Section 2-1221 of the Annotated Code of Maryland, the objectives of this audit were to examine MHIP's financial transactions, records, and internal control, and to evaluate its compliance with applicable State laws, rules, and regulations.

In planning and conducting our audit, we focused on the major financial-related areas of operations based on assessments of significance and risk. The areas addressed by the audit included the Senior Prescription Drug Assistance Program, fund balance transfers, and equipment. We also determined the status of the findings contained in our preceding audit report.

MHIP engaged an independent accounting firm to perform audits of its statutory financial statements. In the related audit reports for the fiscal years ended June 30, 2016, and 2015, the firm stated that MHIP's financial statements presented fairly, in all material respects, its admitted assets, liabilities, and net assets as of June 30, 2016, and 2015 and the results of its operations and cash flows for the years then ended on the basis of accounting practices prescribed or permitted by the Maryland Insurance Administration.

To accomplish our audit objectives, our audit procedures included inquiries of appropriate personnel, inspections of documents and records, and tests of transactions. Generally, transactions were selected for testing based on auditor judgment, which primarily considers risk. Unless otherwise specifically indicated, neither statistical nor non-statistical audit sampling was used to select the transactions tested. Therefore, the results of the tests cannot be used to project those results to the entire population from which the test items were selected.

We also performed various data extracts of pertinent information from the State's Financial Management Information System (such as revenue and expenditure data). The extracts are performed as part of ongoing internal processes established by the Office of Legislative Audits and were subject to various tests to determine data reliability. We determined that the data extracted from these various sources were sufficiently reliable for the purposes the data were used during this audit. Finally, we performed other auditing procedures that we considered necessary to achieve our objectives. The reliability of data used in this report for background or informational purposes was not assessed.

MHIP's management was responsible for establishing and maintaining effective internal control. Internal control is a process designed to provide reasonable assurance that objectives pertaining to the reliability of financial records, effectiveness and efficiency of operations including safeguarding of assets, and compliance with applicable laws, rules, and regulations are achieved.

Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that conditions may change or compliance with policies and procedures may deteriorate.

Our reports are designed to assist the Maryland General Assembly in exercising its legislative oversight function and to provide constructive recommendations for improving State operations. As a result, our reports generally do not address activities we reviewed that are functioning properly.

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