



MNsure: Planning and Establishment Grant Expenditures

Compliance Audit

Year Ended June 30, 2016

March 17, 2017
REPORT 17-07

Financial Audit Division

OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

Office of the Legislative Auditor Financial Audit Division

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OFFICE OF THE LEGISLATIVE AUDITOR

STATE OF MINNESOTA • James Nobles, Legislative Auditor

March 17, 2017

Senator Mary Kiffmeyer, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Allison O'Toole, Chief Executive Officer
MNSure

This report presents the results of our audit of the federal grants awarded to Minnesota to establish its state-based health insurance exchange, administered by MNSure, during fiscal year 2016. We conducted this audit as part of our audit of the state's compliance with federal program requirements. We emphasize that this was not a comprehensive audit of MNSure.

We discussed the results of the audit with MNSure's staff on February 16, 2017. This audit was conducted by Tracy Gebhard, CPA (Audit Director), Valentina Stone, CPA (Auditor-in-Charge), and Erick Olsen (Senior Auditor).

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

Handwritten signature of James R. Nobles in black ink.

James R. Nobles
Legislative Auditor

Handwritten signature of Cecile M. Ferkul in black ink.

Cecile M. Ferkul, CPA, CISA
Deputy Legislative Auditor



Table of Contents

	<u>Page</u>
Report Summary	1
Background	3
Objective, Scope, and Methodology	8
Conclusion	9
Finding and Recommendation	11
1. MNsure did not maintain complete and accurate inventory records of equipment it purchased. This is a repeat finding.	11
Agency Response.....	13



Report Summary

We audited MNSure's use of the State Planning and Establishment Grants (establishment grants) it received under the Patient Protection and Affordable Care Act (Affordable Care Act) in fiscal year 2016.¹

Our first objective was to determine whether MNSure's expenditures complied with current federal restrictions on spending money from establishment grants² and other federal requirements.³ We tested a sample of expenditures for items such as services MNSure purchased from other state agencies or private vendors, grants to organizations helping people obtain insurance through MNSure, as well as MNSure's payroll and indirect costs.

Our second objective was to determine whether MNSure's controls were adequate to ensure it complied with federal requirements. Therefore, we also tested MNSure's internal controls over its expenditures from establishment grants.

Our third objective was to determine whether MNSure had resolved issues from our previous audit.

Conclusion

We concluded that MNSure complied with restrictions on spending from establishment grants and other federal requirements. We also concluded that

¹ Federal grant award numbers for the State Planning and Establishment Grants for the Affordable Care Act's Exchanges Program: 4 HBEIE120176-01-10, 4 HBEIE120177-01-11, 4 HBEIE130163-01-18, and 4 HBEIE140181-01-12.

² Beginning January 1, 2015, the U.S. Department of Health and Human Services' Center for Consumer Information and Insurance Oversight (CCIIO) revised its requirements to prohibit state-based exchanges from using establishment grant money for continued maintenance and operations. Instead, CCIIO required exchanges to use the federal grant money only for activities the federal government had approved in the exchanges' work plans and budgets.

³ The OMB Circular No. A-133 describes general compliance features including: activities allowed or unallowed, allowable costs/cost principles (A-87), cash management, period of availability of federal funds, procurement and suspension/debarment, reporting, subrecipient eligibility and monitoring. We also ensured compliance with the federal requirements listed in the Compliance Supplement for the State Planning and Establishment Grants for the Affordable Care Act's Exchanges (CFDA 93.525) and the U.S. Department of Health and Human Services – Notice of Award – General Terms and Special Terms and Conditions.

MNsure had adequate internal controls to ensure compliance. We have one noncompliance concern, as noted in our audit finding. It is a repeat finding from our previous audit of MNsure.

Audit Finding

- MNsure did not maintain complete and accurate inventory records of equipment it purchased. This is a repeat finding.⁴ (Finding 1, page 11)

⁴ Office of the Legislative Auditor, Financial Audit Division Report 16-08, *MNsure* (Finding 2) issued March 24, 2016, and Financial Audit Division Report 14-21, *Minnesota Health Insurance Exchange: MNsure* (Finding 4) issued October 28, 2014.

Background

In response to an enactment of the Patient Protection and Affordable Care Act,⁵ Governor Mark Dayton signed an executive order on October 31, 2011, authorizing the creation of a state health insurance exchange.

On March 20, 2013, Governor Dayton signed legislation enacted by the Minnesota Legislature establishing “MNsure” as Minnesota’s health insurance exchange.⁶

To establish, develop, and operate the exchange, MNsure received money from the following sources:

- State Planning and Establishment Grants for the Affordable Care Act’s Exchanges Program from the U.S Department of Health and Human Services’ Center for Consumer Information and Insurance Oversight.⁷
- A percentage of insurance premiums, as prescribed by state statute.⁸
- Reimbursements from the Minnesota Department of Human Services.⁹

State Planning and Establishment Grants

Our audit only covered MNsure’s use of the Affordable Care Act’s State Planning and Establishment Grants (CFDA¹⁰ 93.525). We considered these grants and

⁵ Public Law 111-148 as amended by Public Law 111-152.

⁶ MNsure describes itself as a “marketplace where Minnesotans can shop, compare, and choose health insurance coverage that meets their needs.” MNsure is the place where consumers can qualify for financial help either through federal tax credits or through public health care programs, such as Medical Assistance.

⁷ As of June 30, 2016, MNsure had approximately \$25 million of federal grant money remaining. The federal grant money is available until December 2017.

⁸ *Minnesota Statutes* 2016, 62V.05, subd. 2(b) states, “Beginning January 1, 2015, MNsure shall retain or collect up to 3.5 percent of the total premiums for individual and small group market health plans and dental plans sold through MNsure to fund the operations of MNsure...”

⁹ The department has an agreement with MNsure to pay the board for services provided. MNsure provides enrollment activities, including eligibility determination, case management, policy renewal, outreach and post-eligibility to the Department of Human Services for Minnesotans seeking benefits under public health care programs, including Medical Assistance and MinnesotaCare.

¹⁰ The Catalog of Federal Domestic Assistance (CFDA) is a unique number assigned by the federal government to identify its programs.

related expenditures a major federal program for the State of Minnesota and, therefore, subject to audit under the federal Single Audit Act.¹¹

Allowable Use of Grant Money

The federal Center for Consumer Information and Insurance Oversight (CCIIO) has specific requirements for how state exchanges may spend establishment grants. CCIIO required state exchanges to submit detailed work plans and budgets describing how their exchanges would achieve grant objectives and spend grant funds. The Affordable Care Act states:

No federal funds for continued operations. In establishing an Exchange under this section, the State shall ensure that such Exchange is self-sustaining beginning on January 1, 2015, including allowing the Exchange to charge assessments or user fees to participating health insurance issuers, or to otherwise generate funding, to support its operations.¹²

According to CCIIO, state exchanges may use establishment grant money for the following establishment and development activities:¹³

- Stabilizing marketplace IT systems.
- Instituting financial and programmatic audit policies and procedures to comply with State-based Marketplace Annual Reporting Tool (SMART), including establishment of data systems that support compliance.
- Outreach and education, including in-person assistance, to support increasing total enrollment to designated targets in an approved work plan that reflect a documented level of participation that was not achieved by January 1, 2015, and is necessary for the viability of the Marketplace.
- Call center activities to support establishment-related outreach or to provide manual support while exchanges develop IT functionality.
- Long-term capital planning to support successful establishment of the marketplace.

¹¹ We defined a major federal program for the State of Minnesota in accordance with a formula and assessment of risk prescribed by the Code of Federal Regulations, Title 2, Part 200.518 and 200.519.

¹² Patient Protection and Affordable Care Act of 2010, sec. 1311(d)(5), 42 *U.S. Code*, sec. 18031(d)(5)(A).

¹³ <https://www.cms.gov/CCIIO/Resources/Fact-Sheets-and-FAQs/Downloads/FINAL-1311-FAQ-06-08-15.pdf>.

Use of Grants for “Indirect” Costs

Despite the Affordable Care Act’s prohibition of state-based exchanges from using establishment grants to pay for continued maintenance and operations, CCIIO’s latest guidance allows state exchanges to use establishment grants for activities normally associated with maintenance operations. For example, it says, “portions of indirect costs, such as salaries, that support establishment activities may be allowable.” CCIIO requires states to obtain prior approval to using the establishment grants for those costs.

When conducting our audit, we considered unallowable maintenance and operation activity to include board member compensation, advertising contracts, campaigns to advance MNsure’s outreach, and salaries for communication and marketing staff.

We encountered difficulty, however, in determining whether the establishment grants allowed certain types of indirect costs, such as rent, utilities, and management salaries. We found CCIIO’s guidance did not clearly define what types of indirect costs it allowed.

We spoke with a CCIIO representative to clarify whether CCIIO would allow MNsure to use establishment grants to pay for indirect costs. CCIIO’s representative told us that if MNsure uses federal grant money to pay for indirect costs, it must apportion those costs based on the amount of establishment activity; for example, the amount of payroll apportioned to the establishment grants must reflect the percentage of time employees spent on establishment activities.

As long as MNsure allocates indirect costs in this manner, the CCIIO representative told us that the costs, such as rent and utilities that CCIIO otherwise classified as unallowable maintenance and operation activities, could be paid for with establishment grant money.

MNsure’s Fiscal Year 2016 Expenditures

In fiscal year 2016, MNsure’s establishment grant expenditures totaled about \$26 million.¹⁴ Table 1 provides more information about those expenditures and nonfederal expenditures paid for with MNsure’s other revenue sources. In the sections that follow, we discuss each type of establishment grant expenditure in more detail.

¹⁴ Federal grant award numbers for the State Planning and Establishment Grants for the Affordable Care Act’s Exchanges Program: 4 HBEIE120176-01-10, 4 HBEIE120177-01-11, 4 HBEIE130163-01-18, and 4 HBEIE140181-01-12.

Table 1
MNsure Expenditures
Fiscal Year 2016

<u>Expenditure Type</u>	<u>Federal Grant Expenditures</u>	<u>Nonfederal Expenditures^a</u>
Purchased Services ^b	\$17,128,628	\$ 9,585,559
Grants ^c	4,618,356	(\$181,732)
Payroll ^d	3,247,269	9,411,782
Indirect Costs ^e and Other Costs	<u>1,062,942</u>	<u>7,595,128</u>
Total	<u>\$26,057,194</u>	<u>\$26,410,737</u>

^a Nonfederal expenditures were paid for with MNsure's other revenue sources: a percentage of insurance premiums and reimbursements from the Minnesota Department of Human Services.

^b Purchased Services costs were primarily payments to state agencies and external vendors for services related to continued development of the state's exchange. MNsure spent approximately \$10.5 million in payments to the Minnesota Department of Human Services, \$3.2 million to an external vendor for call center services related to manual support while MNsure continues to develop system functionality, \$1.6 million in payments to the Minnesota Department of Management and Budget, and the remaining \$1.8 million to external vendors for establishment and development activities.

^c Grant expenditures were payments to entities for networking, education, outreach, and enrollment activities within the state. In the Nonfederal Expenditures column, the negative expenditures are due to corrections made in the accounting system for expenditures that were initially charged in fiscal year 2015 to the incorrect revenue source.

^d Payroll costs charged to the federal grant included staff time spent on the continued development of the exchange system.

^e Indirect costs charged to the federal grant were a portion of administrative costs, such as management salaries, utilities, rent, etc., that MNsure allocated based on a percentage of employee time spent on allowable establishment and development activities.

Source: State of Minnesota's accounting system.

Purchased Services

We analyzed the services MNsure purchased from other state agencies and private vendors. Our analysis showed MNsure purchased a majority of these services from the departments of Human Services and Management and Budget.

The Department of Human Services maintains contracts for the development of the exchange system.¹⁵ MNsure paid the department quarterly for its share of the work performed under these contracts and for costs associated with managing these contracts.

MNsure also contracts with the Department of Management and Budget's Management Analysis and Development Division for services provided by

¹⁵ The Department of Human Services and MNsure are jointly responsible for the Minnesota Eligibility Technology System, which performs eligibility determinations for Medical Assistance, MinnesotaCare, and Qualified Health Plans. By statute, the Department of Human Services oversees Medical Assistance and MinnesotaCare, while MNsure oversees Qualified Health Plans.

external vendors under the division's master contract program.¹⁶ MNsure paid the division and paid for external vendor services provided under this program.

We tested a sample of purchased service expenditures, including payments to the departments of Human Services, Management and Budget, and other vendors. We reviewed contracts to identify activities contractors performed and if CCIIO allowed those activities. In addition, we reviewed invoices to identify specific costs and determined if those costs were allowable. For payments to the Department of Human Services, we discussed these payments with MNsure and department management to obtain explanations and documentation to ensure CCIIO allowed the activities and costs.

Grants

In its fiscal year 2016 funding announcement, MNsure proposed three areas of grant funding:

- Navigator Network Grants. These grants would support regional networks of highly skilled navigator organizations working collaboratively to reach the uninsured and enroll or renew Minnesotans in health insurance coverage.¹⁷
- Outreach and Enrollment Grants. These grants would support navigator organizations with a demonstrated ability to reach and enroll populations with high levels of uninsurance. Grants would focus on outreach, education, and enrollment for an identified population, with a strong emphasis on activity during the annual open enrollment period.
- Outreach and Education Mini Grants. These grants would connect consumers with help in signing up for coverage during open enrollment. Grants would focus on reaching consumers facing particular challenges to enrolling in or renewing coverage, or populations with high levels of uninsurance.

We tested a sample of grant recipients and all corresponding grant payments MNsure made to those recipients in fiscal year 2016. We compared the activities the grant agreement listed and the costs detailed in the monthly invoices to ensure MNsure only used establishment grants for allowable activities and costs. In

¹⁶ Through the master contract program, the division provides "a streamlined approach for state agencies and other governmental units to secure highly-skilled contractors via a fast and intuitive process."

¹⁷ A health insurance exchange navigator is an individual or organization that is trained and able to help consumers, small businesses, and their employees as they look for health coverage options through an exchange, including completing eligibility and enrollment forms.

addition, we reviewed the required monthly reports that grant recipients submitted to determine if recipients said they met the grant agreement objectives.

Payroll

MNSure identified three areas of activity where it used the establishment grants to pay for payroll costs: (1) the Information Technology Project Management Office, (2) Small Business Health Options Program, and (3) Manual Operations Project.

We tested a sample of employee payroll that MNSure charged to the establishment grants. We reviewed MNSure's organizational chart to find the employee's position and department area and, if needed, discussed these with MNSure staff. Once we determined the employee's job duties, we compared those duties to the activities CCIIO listed as allowable establishment grant activities.

We also reviewed MNSure's payroll records and reports to ensure employees' timesheets were accurate and authorized by supervisors who had knowledge of employees' work.

Indirect Costs

When we analyzed MNSure's expenditures using establishment grant money, we found MNSure's expenditures included indirect costs. An organization incurs these costs as a part of its general operations; costs such as rent, insurance, employee services, accounting, etc. It is often difficult to determine which indirect costs relate to specific activities. CCIIO told us that MNSure could use establishment grant money for indirect costs if MNSure allocated those costs in proportion to the amount of establishment and development activities that was occurring during the time period of the grants.

MNSure apportioned indirect costs among various sources on quarterly basis. We reviewed what type of costs MNSure included in the indirect cost pool and verified that MNSure allocated these costs based on the percentage of employees' time spent on establishment activities. We also verified that the federal government approved this cost allocation method.

Objective, Scope, and Methodology

Our audit had three objectives:

- To determine whether MNSure complied with establishment grant requirements and other federal requirements for fiscal year 2016.
 - To determine whether MNSure had adequate internal controls to ensure compliance with federal requirements.
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- To determine whether MNSure had resolved issues from our previous audit.¹⁸

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the *Government Auditing Standards*, issued by the Comptroller General of the United States of America and with the U.S. Office of Management and Budget's *Circular A-133 Compliance Supplement* and other criteria.¹⁹

Conclusion

We concluded that MNSure complied with restrictions on spending from establishment grants and other federal requirements. We also concluded that MNSure had adequate internal controls to ensure compliance. We have one noncompliance concern, as noted in our audit finding. It is a repeat finding from our previous audit of MNSure.²⁰

Prior Findings Resolved

MNSure resolved two of the three audit findings from the prior audit report.²¹ In the prior audit report, we found that MNSure used federal money to pay for approximately \$98,000 in software maintenance fees not allowed under the grant. Our review showed that MNSure reduced the amount of federal money it subsequently received by that amount.

In addition, the prior audit report identified that MNSure did not comply with state requirements to ensure the accuracy and approval of its payroll time reports. Our current review showed that MNSure implemented controls to ensure appropriate supervisors reviewed payroll reports. MNSure also reduced the instances where employees did not complete their own timesheets or timesheets were not approved by supervisors "having first-hand knowledge of the work performed by the employee."

¹⁸ Office of the Legislative Auditor, Financial Audit Division Report 16-08, *MNSure*, issued March 24, 2016.

¹⁹ The OMB Circular No. A-133 describes general compliance features including: activities allowed or unallowed, allowable costs/cost principles (A-87), cash management, period of availability of federal funds, procurement and suspension/debarment, reporting, subrecipient eligibility and monitoring. We also ensured compliance with the federal requirements listed in the Compliance Supplement for the State Planning and Establishment Grants for the Affordable Care Act's Exchanges (CFDA 93.525) and the U.S. Department of Health and Human Services – Notice of Award – General Terms and Special Terms and Conditions.

²⁰ Office of the Legislative Auditor, Financial Audit Division Report 16-08, *MNSure* (Finding 2) issued March 24, 2016, and Financial Audit Division Report 14-21, *Minnesota Health Insurance Exchange: MNSure* (Finding 4) issued October 28, 2014.

²¹ Office of the Legislative Auditor, Financial Audit Division Report 16-08, *MNSure* (Findings 1 and 3) issued March 24, 2016.

Additional Reporting

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

Finding and Recommendation

Finding 1

MNsure did not maintain complete and accurate inventory records of equipment purchased. This is a repeat finding.²²

In February 2017, MNsure managers confirmed to us that they had not fully implemented our October 2014 recommendation to maintain complete and accurate inventory records for over \$5 million of equipment MNsure purchased with establishment grant money.²³

In our prior audit report, we noted that MNsure had not updated its inventory records with specific equipment identification and location information. In addition, MNsure did not ensure its inventory records included all equipment MNsure purchased and exchange equipment purchased by other state agencies. Multiple agencies were involved in purchasing and housing the equipment, and miscommunication among these departments led to the issues we noted in our prior report.

Federal regulations require that, “*A state must use, manage, and dispose of equipment acquired under a federal award by the state in accordance with state laws and procedures.*”²⁴ The State of Minnesota’s Property Management Policy and User Guide defines “equipment” as having a useful life of two or more years with an acquisition cost of \$5,000 or more. The guide indicates the Asset Management Module in the state’s accounting system is the official record for all capital assets and requires agencies to assign asset identification numbers and identify physical location information at least every two years. MNsure Board Policy #7 further requires a “... *written inventory of all physical assets and supplies, and updates the same periodically through a physical inventory.*”

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

²² Office of the Legislative Auditor, Financial Audit Division Report 16-08, *MNsure* (Finding 2) issued March 24, 2016, and Financial Audit Division Report 14-21, *Minnesota Health Insurance Exchange: MNsure* (Finding 4) issued October 28, 2014.

²³ *Ibid.*

²⁴ 2 *CFR*, sec. 200.313 (2014).

Recommendation

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



March 13, 2017

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

Dear Mr. Nobles:

Thank you for the opportunity to review and respond to the findings and recommendations included in the draft Financial Audit Division Report “MNSure: Planning and Establishment Grant Expenditures Compliance Audit Year Ended June 30, 2016.” We are pleased that this report found MNSure has complied with and had controls to ensure compliance with federal laws and regulations applicable to its major federal program. We appreciate the professionalism shown by your staff throughout this audit. As you know, we welcome your review and view it as part of an ongoing process of improvement for the organization. MNSure’s response to the specific finding is attached. We have included a brief explanation of our relationship with other state agencies identified in your report.

Minnesota has the highest rate of health coverage in state history, with 96 percent of Minnesotans having health coverage—among the best in the nation. Through the end of 2017, Minnesotans are projected to save more than \$300 million through tax credits, thanks to financial help only available through MNSure.

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

- As of March 5, 2017, we have enrolled 121,522 consumers in qualified health plans (QHP). Additionally, Minnesota also set a record for public program enrollments with 40,516 Minnesotans enrolled in MinnesotaCare and 150,895 enrolled in Medical Assistance.
- Approximately 43 percent of MNSure private plan enrollees were new to the exchange.
- Approximately 68 percent of MNSure enrollees are receiving tax credits.
- Nearly 2,000 navigators, brokers and other assisters statewide were in place to help consumers enroll.



- We have a strong, multi-agency project management team and decision-making process in place to set priorities.
- We have a deep commitment to transparency and accountability.
- We are listening, and our partners and stakeholders are informed and engaged with us as we continue to grow and improve.

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

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

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

Sincerely,

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

Allison O'Toole
Chief Executive Officer

MNsure's Relationship with Other State Agencies in the Expenditure of Federal Grant Funds

MNsure works closely with other state agencies in the development of the exchange. The Minnesota Eligibility Technology System (METS) performs eligibility determinations for Medical Assistance, MinnesotaCare and qualified health plans. The ongoing development of METS is overseen by the Executive Steering Committee (ESC), an interagency governance structure codified in Minnesota Statutes, Section 62V.055, which is comprised of representatives from the Department of Human Services (DHS), the Office of MNIT Services, counties and MNsure. At the direction of the ESC and pursuant to an interagency agreement, DHS is the technical lead for the development of METS. As an administrative convenience, DHS holds the IT contracts with vendors performing development work on METS. Federal grant expenditure payments to DHS detailed in the draft audit report's Table 1, MNsure Expenditures, Fiscal Year 2016, represent MNsure's share of IT development costs under these contracts.

The Minnesota Management and Budget Management Analysis and Development Division (MAD) has a master contract program whereby management consultants participate in a master agreement with the state for various services. MNsure purchases consulting services related to the development of the exchange from certain vendors participating in this program. Federal grant expenditure payments to MMB detailed in the draft audit report's Table 1, MNsure Expenditures, Fiscal Year 2016 to MMB, are for services under these contracts.

MNsure's Response to the Finding

OLA Finding 1

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

OLA Recommendations

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

MNsure's Response to OLA Finding 1

MNsure agrees with this finding. The creation of a fixed asset register in SWIFT is a significant undertaking, given the large number of assets purchased during the creation of the exchange. Over the past year, MNsure and DHS have identified and are implementing a resolution to this matter.

Status: In process. Estimated completion date is December 31, 2017.

Responsible Person: Kari Koob, MNsure Chief Financial Officer

For more information about OLA and to access its reports, go to: www.auditor.leg.state.mn.us.

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