

Department of Health and Human Services

**OFFICE OF  
INSPECTOR GENERAL**

**NOT ALL OF THE WASHINGTON  
MARKETPLACE'S INTERNAL  
CONTROLS WERE EFFECTIVE IN  
ENSURING THAT INDIVIDUALS  
WERE ENROLLED IN QUALIFIED  
HEALTH PLANS ACCORDING TO  
FEDERAL REQUIREMENTS**

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January 2016  
A-09-14-01006

# *Office of Inspector General*

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## EXECUTIVE SUMMARY

*Not all of the Washington marketplace's internal controls were effective in ensuring that individuals were enrolled in qualified health plans according to Federal requirements.*

### WHY WE DID THIS REVIEW

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

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

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

### BACKGROUND

#### Qualified Health Plans and Insurance Affordability Programs

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

To be eligible to enroll in a QHP, an individual must be a U.S. citizen, a U.S. national, or lawfully present in the United States; not be incarcerated; and meet applicable residency standards. To be eligible for insurance affordability programs, the individual must meet additional requirements for annual household income. An individual is not eligible for these

programs if he or she is eligible for minimum essential coverage that is not offered through a marketplace. Minimum essential coverage consists of employer-sponsored insurance (ESI) and non-ESI. The latter includes Government programs (such as Medicare and Medicaid), grandfathered plans, and other plans.

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

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

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

After reviewing the applicant's information, the marketplace determines whether the applicant is eligible for a QHP and, when applicable, eligible for insurance affordability programs. To verify the information submitted by the applicant, the marketplace uses multiple electronic data sources, including sources available through the Federal Data Services Hub (Data Hub). The data sources available through the Data Hub are the U.S. Department of Health and Human Services, Social Security Administration (SSA), U.S. Department of Homeland Security, and the Internal Revenue Service, among others. Additionally, the marketplace can verify an applicant's eligibility for ESI through Federal employment by obtaining information from the U.S. Office of Personnel Management (OPM) through the Data Hub.

State marketplaces can access additional sources of data to verify applicant information. For example, the Washington marketplace uses State wage data to verify annual household income. Furthermore, the Washington marketplace can use data from Washington's Small Business Health Options Program (SHOP) to verify whether applicants are eligible for ESI. (The SHOP marketplace enables small businesses to access health coverage for their employees.) If the marketplace determines that the applicant is eligible to enroll in a QHP, the applicant selects a QHP, and the marketplace transmits the enrollment information to the insurance company, i.e., the QHP issuer.

Generally, when a marketplace cannot verify information that the applicant submitted or the information is inconsistent with information available through the Data Hub or other sources, the marketplace must attempt to resolve the inconsistency. If the marketplace is unable to resolve an inconsistency through reasonable efforts, it must generally give the applicant 90 days to submit

satisfactory documentation or otherwise resolve the inconsistency. (This 90-day period is referred to as “the inconsistency period.”) The marketplace may extend the inconsistency period if the applicant demonstrates that a good-faith effort has been made to obtain required documentation. During the inconsistency period, the applicant may still enroll in a QHP and, when applicable, may choose to receive the APTC and cost-sharing reductions. After the inconsistency period, if the marketplace is unable to resolve the inconsistency, it determines the applicant’s eligibility on the basis of available data sources and, in certain circumstances, the applicant’s attestation.

## **HOW WE CONDUCTED THIS REVIEW**

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

We limited our review to those internal controls related to (1) verifying applicants’ identities, (2) determining applicants’ eligibility for enrollment in QHPs and eligibility for insurance affordability programs, and (3) maintaining and updating eligibility and enrollment data. To determine the effectiveness of the internal controls, we (1) reviewed a sample of 45 applicants randomly selected from applicants who enrolled in QHPs during the open enrollment period (a total of 154,929 applicants), which included the review of supporting documentation to evaluate whether the marketplace determined the applicants’ eligibility in accordance with Federal requirements, and (2) performed other audit procedures, which included interviews with marketplace management, staff, and contractors and reviews of supporting documentation and enrollment records. Because our review was designed to provide only reasonable assurance that the internal controls we reviewed were effective, it would not necessarily have detected all internal control deficiencies.

## **WHAT WE FOUND**

Not all of the Washington marketplace’s internal controls were effective in ensuring that individuals were enrolled in QHPs according to Federal requirements.

On the basis of our review of 45 sample applicants from the enrollment period for insurance coverage effective in calendar year 2014, we determined that certain controls were effective, such as the controls for verifying applicants’ incarceration status. However, on the basis of our sample review and performing other audit procedures, such as interviewing marketplace officials and reviewing supporting documentation, we determined that other controls were not effective:

- The marketplace did not always verify whether applicants were eligible for minimum essential coverage through non-ESI.
- The marketplace did not always resolve inconsistencies in applicants’ eligibility data.
- The marketplace did not properly verify annual household income.

- The marketplace did not verify whether applicants were eligible for minimum essential coverage through ESI.

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

The deficiencies that we identified occurred because the Washington marketplace did not (1) ensure that it verified all applicants' eligibility for minimum essential coverage through non-ESI and (2) design its enrollment system to resolve all inconsistencies in eligibility data and to properly verify annual household income. In addition, the marketplace did not have procedures to obtain information from OPM and Washington's SHOP to ensure that it verified whether applicants were eligible for minimum essential coverage through ESI.

## **WHAT WE RECOMMEND**

We recommend that the Washington marketplace:

- implement corrective actions to ensure that it verifies whether all applicants are eligible for minimum essential coverage through non-ESI,
- improve the design of its enrollment system to:
  - resolve all inconsistencies in eligibility data and determine applicants' eligibility on the basis of available electronic data sources as appropriate and
  - properly verify annual household income, and
- develop and implement procedures to obtain information from OPM and Washington's SHOP to verify whether applicants are eligible for minimum essential coverage through ESI.

We also recommend that the Washington marketplace redetermine, if necessary, the eligibility of the sample applicants for whom we determined that verifications were not performed according to Federal requirements.

## **WASHINGTON MARKETPLACE COMMENTS**

In written comments on our draft report, the Washington marketplace concurred with our recommendations and provided information on actions that it had taken or planned to take to address our recommendations.

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## INTRODUCTION

### WHY WE DID THIS REVIEW

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

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

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

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

### OBJECTIVE

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

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<sup>1</sup> 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).

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

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

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

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

## BACKGROUND

### Patient Protection and Affordable Care Act

The ACA established marketplaces to allow individuals and small businesses to shop for health insurance in all 50 States and the District of Columbia. Each State can have an individual marketplace and a Small Business Health Options Program (SHOP) marketplace, which enables small businesses to access health coverage for their employees.<sup>6</sup> A goal of the ACA is to provide more Americans with access to affordable health care by, for example, providing financial assistance through insurance affordability programs for people who could not afford insurance without it.

### Health Insurance Marketplaces

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

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

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

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<sup>6</sup> This report does not cover applicants who enrolled in QHPs through Washington's SHOP marketplace.

## Qualified Health Plans and Insurance Affordability Programs

### *Qualified Health Plans*

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

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

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

- **Premium tax credit:** The premium tax credit reduces the cost of a QHP’s premium and is available at income tax filing time or in advance. Generally, the premium tax credit is available on a sliding scale to an individual or a family with annual household income from 100 percent through 400 percent of the Federal poverty level. When paid in advance, the credit is referred to as the “advance premium tax credit” (APTC).<sup>9</sup> The Federal Government pays the APTC amount monthly to the QHP issuer on behalf of the taxpayer to offset a portion of the premium cost of any metal-level plan. For example, if an individual who selects a QHP with a \$500 monthly insurance premium qualifies for a \$400 monthly APTC (and chooses to use it all), the individual pays only \$100 to the QHP issuer. The Federal Government pays the remaining \$400 to the QHP issuer. Starting in January 2015, taxpayers have been required to include on their calendar year (CY) 2014 tax returns (and subsequent years’ tax returns) the amount of any APTC made on their behalf. The IRS reconciles the APTC payments with the maximum allowable amount of the credit.
- **Cost-sharing reductions:** Cost-sharing reductions help qualifying individuals with out-of-pocket costs, such as deductibles, coinsurance, and copayments.<sup>10</sup> For example, an individual who visits a physician may be responsible for a \$30 copayment. If the individual qualifies for a cost-sharing reduction of \$20 for the copayment, the individual

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

<sup>16</sup> 45 CFR § 155.20 and 26 U.S.C. § 5000A(f). Minimum essential coverage consists of employer-sponsored insurance (ESI) and non-ESI.

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

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

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

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

<sup>19</sup> 45 CFR §§ 155.315 and 155.320. For the purpose of this report, we use the term “non-ESI” to include Government-sponsored programs (e.g., Medicare, Medicaid, TRICARE, and Peace Corps), grandfathered plans, and other plans.

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

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

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

Figure 1 on the following page summarizes the steps in the application and enrollment process, and the sections that follow describe in more detail the key steps in the process.

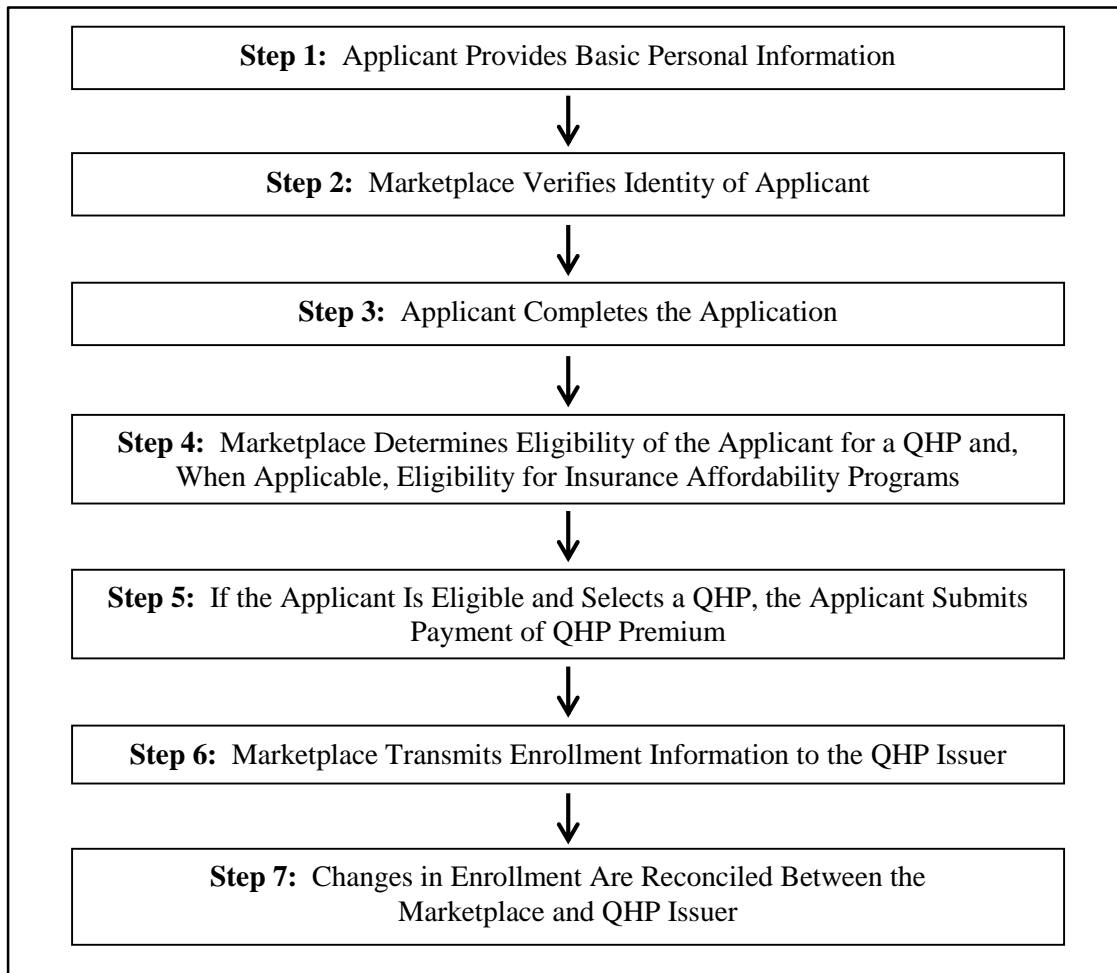
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<sup>20</sup> For the purpose of this report, the term "applicant" refers to both the person who completes the application (application filer) and the person who seeks coverage in a QHP. The application filer may or may not be an applicant seeking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

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

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

**Figure 1: Seven Steps in the Application and Enrollment Process for a Qualified Health Plan<sup>23</sup>**



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

An applicant begins the enrollment process in a QHP by providing basic personal information, such as name, birth date, and Social Security number. Before an applicant can submit an online or phone application, the marketplace must verify the applicant's identity through identity proofing. The purpose of identity proofing is to (1) prevent an unauthorized individual from creating a marketplace account for another individual and applying for health coverage without the individual's knowledge and (2) safeguard personally identifiable information created, collected, and used by the marketplace. For paper applications, the marketplace requires the applicant's signature before the marketplace processes the application.<sup>24</sup>

<sup>23</sup> The steps below apply specifically to the Washington marketplace. During other marketplaces' enrollment processes, marketplaces may transmit enrollment information to the QHP issuer before the applicant submits payment of the QHP premium.

<sup>24</sup> CMS's *Guidance Regarding Identity Proofing for the Marketplace, Medicaid, and CHIP, and the Disclosure of Certain Data Obtained through the Data Services Hub*, June 11, 2013.



When completing any type of application, the applicant attests that answers to all questions are true and that the applicant is subject to the penalty of perjury.<sup>25</sup>

#### *Verification of Applicant's Eligibility (Figure 1: Step 4)*

After reviewing the applicant's information, the marketplace determines whether the applicant is eligible for a QHP and, when applicable, eligible for insurance affordability programs.<sup>26</sup> To verify information submitted by the applicant, the marketplace uses multiple electronic data sources, including sources available through the Federal Data Services Hub (Data Hub).<sup>27</sup> The Data Hub is a single conduit for marketplaces to send electronic data to and receive electronic data from multiple Federal agencies; it does not store data. Federal agencies connected to the Data Hub are HHS, the Social Security Administration (SSA), the U.S. Department of Homeland Security, and the IRS, among others (ACA § 1411(c)).<sup>28</sup> Additionally, the marketplace can verify an applicant's eligibility for ESI through Federal employment by obtaining information from the U.S. Office of Personnel Management (OPM) through the Data Hub.

#### *Resolution of Inconsistencies in Applicant Information (Figure 1: Step 4)*

Generally, when a marketplace cannot verify information that the applicant submitted or the information is inconsistent with information available through the Data Hub or other sources, the marketplace must attempt to resolve the inconsistencies. For these purposes, applicant information is considered to be consistent with information from other sources if it is reasonably compatible.<sup>29</sup> Information is considered reasonably compatible if any difference between the applicant information and that from other sources does not affect the eligibility of the applicant. Inconsistencies do not necessarily indicate that an applicant (1) provided inaccurate information or (2) is inappropriately enrolled in a QHP or inappropriately receiving financial assistance through insurance affordability programs.

A marketplace must make a reasonable effort to identify and address the causes of an inconsistency by contacting the applicant to confirm the accuracy of the information on the application. If the marketplace is unable to resolve the inconsistency through reasonable efforts,

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<sup>25</sup> Any person who fails to provide correct information may be subject to a civil monetary penalty (ACA § 1411(h)).

<sup>26</sup> An applicant can apply for enrollment in a QHP without applying for insurance affordability programs.

<sup>27</sup> State marketplaces can access additional sources of data to verify applicant information. For example, the Washington marketplace uses State wage and unemployment data to verify annual household income. Furthermore, the Washington marketplace can use SHOP data to verify whether applicants are eligible for ESI.

<sup>28</sup> See Appendix A for information on the Washington marketplace's process for verifying annual household income and eligibility for minimum essential coverage through ESI and non-ESI.

<sup>29</sup> 45 CFR § 155.300(d). For purposes of determining reasonable compatibility, "other sources" include information obtained through electronic data sources, other information provided by the applicant, or other information in the records of the marketplace.

it must generally give the applicant 90 days to submit satisfactory documentation or otherwise resolve the inconsistency. (This 90-day period is referred to as “the inconsistency period.”)<sup>30</sup> The marketplace may extend the inconsistency period if the applicant demonstrates that a good-faith effort has been made to obtain required documentation.<sup>31</sup>

During the inconsistency period, the applicant may still enroll in a QHP and, when applicable, may choose to receive the APTC and cost-sharing reductions.<sup>32</sup> An applicant may choose to enroll during the period only if the applicant is otherwise eligible to enroll in a QHP and may receive the APTC and cost-sharing reductions if (1) the applicant meets other eligibility requirements and (2) the tax filer<sup>33</sup> attests that he or she understands that the APTC is subject to reconciliation.<sup>34</sup> After the inconsistency period, if the marketplace is unable to resolve the inconsistency, it determines the applicant’s eligibility on the basis of available data sources and, in certain circumstances, the applicant’s attestation.<sup>35</sup> For example, if the marketplace is unable to resolve an inconsistency related to citizenship, it should determine the applicant ineligible for a QHP and terminate the applicant’s enrollment from the QHP if the applicant is already enrolled.

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

*Transmission of Applicant’s Enrollment Information to the Qualified Health Plan Issuer  
(Figure 1: Steps 5 Through 7)*

If an applicant is determined to be eligible and selects a QHP, a marketplace transmits enrollment information to the QHP issuer (45 CFR § 155.400). Generally, an applicant must pay the first month’s QHP premium for the insurance coverage to be effective. If a change to the enrollee’s<sup>36</sup> coverage occurs after the coverage becomes effective, the marketplace and the QHP issuer must reconcile the revised enrollment records (45 CFR § 155.400).

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<sup>30</sup> 45 CFR § 155.315(f).

<sup>31</sup> 45 CFR § 155.315(f)(3).

<sup>32</sup> 45 CFR § 155.315(f)(4).

<sup>33</sup> Generally, a “tax filer” is an individual or a married couple who indicate that they are filing an income tax return for the benefit year (45 CFR § 155.300(a)).

<sup>34</sup> 45 CFR § 155.315(f)(4).

<sup>35</sup> 45 CFR §§ 155.315(f)(5), (f)(6), and (g).

<sup>36</sup> For the purpose of this report, the term “enrollee” refers to an applicant who completed an application, was determined eligible, and selected a QHP and whose premium payment was collected by the Washington marketplace.

## **CMS's Oversight of Marketplaces**

CMS oversees implementation of certain ACA provisions related to marketplaces.<sup>37</sup> CMS also works with States to establish State and State-partnership marketplaces, including oversight functions such as performing onsite reviews of system functionality for eligibility determinations, enrollment of applicants, and consumer assistance.<sup>38</sup>

### **The Washington Marketplace**

Washington enacted legislation to create a State marketplace.<sup>39</sup> The public-private entity known as the Washington Health Benefit Exchange established and operates the Washington marketplace. For insurance coverage effective in CY 2014, the Washington marketplace had contracts with 10 insurance companies to offer QHPs to individuals.

The Washington marketplace uses its enrollment system (Washington Healthplanfinder) to determine applicants' eligibility for enrollment in QHPs and, when applicable, eligibility for insurance affordability programs. The system also assesses eligibility for Apple Health (Washington Medicaid and CHIP). Applicants can use the Washington marketplace's Web site ([wahealthplanfinder.org](http://wahealthplanfinder.org)) to enroll in QHPs.

## **HOW WE CONDUCTED THIS REVIEW**

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

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

To determine the effectiveness of the internal controls, we:

- reviewed a sample of 45 applicants randomly selected from applicants who enrolled in QHPs during the open enrollment period (a total of 154,929 applicants), which included the review of supporting documentation to evaluate whether the marketplace determined the applicants' eligibility in accordance with Federal requirements, and

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<sup>37</sup> The Center for Consumer Information and Insurance Oversight, within CMS, oversees implementation of the ACA with respect to marketplaces.

<sup>38</sup> ACA § 1313 and 45 CFR §§ 155.110 and 155.1200.

<sup>39</sup> Washington Substitute Senate Bill 5445 (2011).

- performed other audit procedures, which included interviews with marketplace management, staff, and contractors and reviews of supporting documentation and enrollment records.

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

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

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

We performed fieldwork from June 2014 to January 2015 at the Washington marketplace office in Olympia, Washington. We also performed fieldwork at one marketplace contractor's office in Seattle, Washington.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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

## FINDINGS

Not all of the Washington marketplace's internal controls were effective in ensuring that individuals were enrolled in QHPs according to Federal requirements.

On the basis of our review of 45 sample applicants from the enrollment period for insurance coverage effective in CY 2014, we determined that certain controls were effective, such as the controls for verifying applicants' incarceration status. However, on the basis of our sample

review and performing other audit procedures, such as interviewing marketplace officials and reviewing supporting documentation, we determined that other controls were not effective:

- The marketplace did not always verify applicants' eligibility for minimum essential coverage through non-ESI.
- The marketplace did not always resolve inconsistencies in applicants' eligibility data.
- The marketplace did not properly verify annual household income.
- The marketplace did not verify whether applicants were eligible for minimum essential coverage through ESI.

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

The deficiencies that we identified occurred because the Washington marketplace did not (1) ensure that it verified all applicants' eligibility for minimum essential coverage through non-ESI and (2) design its enrollment system to resolve all inconsistencies in eligibility data and to properly verify annual household income. In addition, the marketplace did not have procedures to obtain information from OPM and Washington's SHOP to ensure that it verified whether applicants were eligible for minimum essential coverage through ESI.

### **THE WASHINGTON MARKETPLACE DID NOT ALWAYS VERIFY WHETHER APPLICANTS WERE ELIGIBLE FOR MINIMUM ESSENTIAL COVERAGE THROUGH NON-EMPLOYER-SPONSORED INSURANCE**

To be eligible for insurance affordability programs, an applicant must not be eligible for minimum essential coverage, with the exception of coverage in the individual market (45 CFR §§ 155.305(f)(1)(ii)(B) and (g)(1)(i)(B)). Federal regulations define "minimum essential coverage" as having the meaning given in 26 U.S.C. § 5000A(f) (45 CFR § 155.20). Minimum essential coverage includes ESI and non-ESI (*see* 26 U.S.C. § 5000A(f)). Marketplaces must verify whether an applicant is eligible for minimum essential coverage other than through an eligible employer-sponsored plan, Medicaid, CHIP, or a basic health plan using information obtained by transmitting through the Data Hub identifying information specified for verification purposes (45 CFR § 155.320(b)(1)).

The Washington marketplace did not always verify whether applicants were eligible for minimum essential coverage through non-ESI. Specifically, for 1 of the 42 sample applicants who applied for insurance affordability programs, the marketplace did not transmit through the Data Hub identifying information (such as name, Social Security number, and date of birth) for

verifying eligibility for minimum essential coverage through non-ESI. Washington marketplace officials could not explain why the marketplace did not verify eligibility for minimum essential coverage through non-ESI for the one sample applicant and speculated that a system error may have occurred.<sup>40</sup>

Without transmitting through the Data Hub identifying information for verification purposes, the Washington marketplace cannot verify whether applicants are eligible for minimum essential coverage through non-ESI and therefore cannot ensure that applicants are eligible for insurance affordability programs.

### **THE WASHINGTON MARKETPLACE DID NOT ALWAYS RESOLVE INCONSISTENCIES IN APPLICANTS' ELIGIBILITY DATA**

Marketplaces must make a reasonable effort to identify and address the causes of inconsistencies in eligibility data. If a marketplace is unable to resolve an inconsistency, it (1) must notify the applicant of the inconsistency and (2) generally must give the applicant 90 days from the date on which the notice was sent to either present satisfactory documentary evidence or otherwise resolve the inconsistency (45 CFR § 155.315(f)). A marketplace may extend the inconsistency period when an applicant demonstrates a good-faith effort to obtain sufficient documentation to resolve the inconsistency (45 CFR § 155.315(f)(3)). During the inconsistency period, an applicant who is otherwise qualified is eligible to enroll in a QHP and, when applicable, eligible for insurance affordability programs (45 CFR § 155.315(f)(4)). After the inconsistency period, if a marketplace is unable to resolve the inconsistency, it determines the applicant's eligibility on the basis of available data sources and, in certain circumstances, the applicant's attestation (45 CFR §§ 155.315(f)(5), (f)(6), and (g)).

The Washington marketplace did not always resolve inconsistencies in applicants' eligibility data. Specifically, for 3 of the 10 sample applicants who had inconsistencies in their eligibility data, the marketplace did not resolve the inconsistencies. For example, on February 26, 2014, the marketplace determined that an applicant was eligible for a QHP, the APTC, and cost-sharing reductions and notified the applicant of an inconsistency related to annual household income. The marketplace requested that the applicant provide supporting documentation of annual household income, such as company payroll documents and income tax forms. The applicant did not provide any supporting documentation, and the marketplace indicated that it had not provided a good-faith extension of the inconsistency period. However, the marketplace did not resolve the inconsistency and allowed the applicant to remain enrolled in a QHP and eligible to receive the APTC and cost-sharing reductions.

The inconsistencies for the three sample applicants had not been resolved as of the date of our followup visit to the Washington marketplace on December 19, 2014. The marketplace (1) allowed the applicants to remain eligible to receive the APTC and (2) did not have documentation to indicate that it had extended the inconsistency period on the basis of good-faith efforts by the applicants to obtain the requested documentation to resolve the inconsistencies.

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<sup>40</sup> The marketplace was able to perform the other eligibility verifications for this sample applicant.

The Washington marketplace did not design its enrollment system to resolve all inconsistencies in eligibility data. According to marketplace officials, its enrollment system contained defects that prevented the marketplace from using the system's automated inconsistency resolution process, and the marketplace did not have the resources to manually resolve all inconsistencies as required. Additionally, the Washington marketplace did not notify one of the three sample applicants of the inconsistency because its enrollment system did not process the request to notify the applicant.

Without resolving inconsistencies in applicants' eligibility data, the Washington marketplace cannot ensure that applicants meet each of the eligibility requirements for enrollment in a QHP and, when applicable, for insurance affordability programs.

### **THE WASHINGTON MARKETPLACE DID NOT PROPERLY VERIFY ANNUAL HOUSEHOLD INCOME**

If an applicant's attested annual household income is no more than 10 percent below the annual household income as computed using available data sources, a marketplace must generally accept the applicant's attestation (45 CFR § 155.320(c)(3)(v)). A marketplace must follow the inconsistency resolution process outlined in 45 CFR § 155.315(f) if an applicant's attested annual household income is more than 10 percent below the annual household income as computed using available sources (45 CFR § 155.320(c)(3)(vi)(D)).

The Washington marketplace did not properly verify applicants' attested annual household income. The marketplace converted attested, IRS, and State wage and unemployment income amounts to percentages of the Federal poverty level and compared those percentages using a 10-percentage-point threshold to verify the attested household income.<sup>41</sup> The marketplace should have used the income amounts to verify annual household income without converting the amounts to a percentage of the Federal poverty level.

Figure 2 on the following page illustrates an example of the effect of the Washington marketplace's use of Federal poverty level percentages instead of income amounts to verify annual household income.

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<sup>41</sup> We identified this deficiency by performing other audit procedures and by reviewing sample applicants. Of the 45 sample applicants, 42 were determined eligible for the APTC. This deficiency affected 6 of these 42 sample applicants.

**Figure 2: Example of Effect of Using Federal Poverty Level Percentages To Verify Annual Household Income**

<b>How the Washington Marketplace Performed the Verification</b>		<b>How the Washington Marketplace Should Have Performed the Verification</b>	
Attested annual household income calculated as percentage of Federal poverty level	392%	Attested annual household income	\$45,000
Income amount from electronic sources calculated as percentage of Federal poverty level	426%	Income amount from electronic sources	\$49,000
Percentage-point difference (426 – 392)	34	Percentage difference (49,000 – 45,000 / 49,000)	8%
<b>Result</b>	<b>Applicant Placed in an Inconsistency Period</b>	<b>Result</b>	<b>Applicant’s Income Verified</b>

An applicant attests to an annual household income of \$45,000 and a family size of one, and the available electronic data sources show an annual household income of \$49,000. The Washington marketplace, using the Federal poverty level of \$11,490 for a family size of one, converts the attested annual household income to a percentage of the Federal poverty level (392 percent) and converts the income amount from electronic data sources to a percentage of the Federal poverty level (426 percent). The marketplace determines that the annual household income is not verified because the attested amount calculated as a percentage of the Federal poverty level is more than 10 percentage points (34 percentage points) below the amount from electronic data sources calculated as a percentage of the Federal poverty level. As a result, the marketplace places the applicant in an inconsistency period.

If the marketplace had properly applied the 10 percent threshold to the annual household income amounts instead of applying the 10-percent-point threshold to the converted percentage amounts, the difference between the attested amount and the amount from electronic sources would have been 8 percent (less than 10 percent). As a result, the income would have been verified, and the applicant would not have been placed in an inconsistency period.

This deficiency occurred because the Washington marketplace’s enrollment system was designed to verify annual household income using percentages of the Federal poverty level instead of the income amounts. As a result, the marketplace may improperly place applicants in inconsistency periods for annual household income when the applicants’ attested incomes should have been considered verified.



## **THE WASHINGTON MARKETPLACE DID NOT VERIFY WHETHER APPLICANTS WERE ELIGIBLE FOR MINIMUM ESSENTIAL COVERAGE THROUGH EMPLOYER-SPONSORED INSURANCE**

To be eligible for insurance affordability programs, an applicant must not be eligible for minimum essential coverage, with the exception of coverage in the individual market (45 CFR §§ 155.305(f)(1)(ii)(B) and (g)(1)(i)(B)). Marketplaces must verify whether an applicant reasonably expects to be enrolled or is eligible for minimum essential coverage in an eligible employer-sponsored plan for the benefit year for which coverage is requested (45 CFR § 155.320(d)(1)). This includes verifying whether the applicant has coverage through Federal employment by transmitting identifying information through the Data Hub (45 CFR § 155.320(d)(2)(ii)) and obtaining available data from Washington's SHOP (45 CFR § 155.320(d)(2)(iii)). Generally, a marketplace must verify ESI through Federal employment by obtaining information from OPM.

The Washington marketplace did not verify whether applicants were eligible for minimum essential coverage through ESI.<sup>42</sup> This deficiency occurred because the marketplace did not have procedures to obtain information from OPM to verify Federal employment and to check whether applicants were enrolled in Washington's SHOP. A Washington marketplace policy stated that the marketplace accepts self-attestation for ESI. According to marketplace officials, they did not perform verification through OPM because OPM verifies ESI for a limited number of applicants (i.e., applicants who may be Federal employees). Similarly, Washington's SHOP data were available for a small number of applicants, but the marketplace did not obtain the data.

Without verifying whether applicants have coverage through Federal employment and obtaining available data from Washington's SHOP, the Washington marketplace cannot verify whether applicants are eligible for minimum essential coverage through ESI and therefore cannot ensure that applicants are eligible for insurance affordability programs.

### **RECOMMENDATIONS**

We recommend that the Washington marketplace:

- implement corrective actions to ensure that it verifies whether all applicants are eligible for minimum essential coverage through non-ESI,
- improve the design of its enrollment system to:
  - resolve all inconsistencies in eligibility data and determine applicants' eligibility on the basis of available electronic data sources as appropriate and
  - properly verify annual household income, and

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<sup>42</sup> We identified this deficiency by performing other audit procedures, not by reviewing sample applicants. Of the 45 sample applicants, 42 were determined eligible for the APTC. All 42 sample applicants were affected by this deficiency.

- develop and implement procedures to obtain information from OPM and Washington’s SHOP to verify whether applicants are eligible for minimum essential coverage through ESI.

We also recommend that the Washington marketplace redetermine, if necessary, the eligibility of the sample applicants for whom we determined that verifications were not performed according to Federal requirements.

### **WASHINGTON MARKETPLACE COMMENTS**

In written comments on our draft report, the Washington marketplace concurred with our recommendations and provided information on actions that it had taken or planned to take to address our recommendations. The marketplace’s comments appear in their entirety as Appendix F.

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

The information below describes how the Washington marketplace used data on annual household income and eligibility for minimum essential coverage through ESI and non-ESI to determine eligibility for the APTC and cost-sharing reductions for insurance coverage effective in CY 2014.

### **ANNUAL HOUSEHOLD INCOME**

1. An applicant applies for the APTC and cost-sharing reductions.
2. The applicant answers a series of questions, which allows the application to capture the modified adjusted gross income (attested income).
3. The attested income is provided to the Washington Department of Social and Health Services' Eligibility Service, which performs income verification checks.
4. The attested income is compared with data available from the IRS. The attested income and income reflected in IRS data are converted to percentages of the Federal poverty level. If the attested income as a percentage of the Federal poverty level is lower than but within 10 percentage points of the income reflected in IRS data, the attested income is considered verified. If the attested income is higher than the income reflected in IRS data, the attested income is considered verified.
5. If the attested income cannot be verified using IRS data, the attested income is compared with State wage and unemployment data (State data). The income amount from the State data is converted to a percentage of the Federal poverty level. If the attested income as a percentage of the Federal poverty level is lower than but within 10 percentage points of the income reflected in State data, the attested income is considered verified. If the attested income is higher than the income reflected in State data, the attested income is considered verified.<sup>43</sup>
6. If the income data from the State does not substantiate the attested income, the marketplace places the applicant in an inconsistency period and sends a letter to the applicant requesting an explanation or additional documentation to substantiate the attested income.
7. During the inconsistency period, the applicant is granted eligibility for the APTC and cost-sharing reductions on the basis of the attested income.

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<sup>43</sup> Because the enrollment system was designed to verify annual household income using percentages of the Federal poverty level instead of income amounts, the Washington marketplace did not properly verify annual household income, as noted in the "Findings" section of this report.

8. If the applicant submits acceptable supporting documentation (e.g., Federal income tax forms) reflecting that household income is within 10 percent of the attested income, the marketplace determines that the attested income is verified.
9. If the applicant does not submit the requested documentation within the specified timeframe, the marketplace determines the applicant's eligibility for the APTC and cost-sharing reductions on the basis of data available from the IRS or the State.

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

1. An applicant applies for the APTC and cost-sharing reductions.
2. The applicant attests to whether he or she is eligible (or will be eligible during the coverage year) for health coverage through a job, even if it is from another person's job (e.g., a spouse's). The applicant states "Yes" or "No" on the application.
3. The marketplace accepts the applicant's attested response. The applicant's attested response is not verified.<sup>44</sup>
4. If the applicant's required contribution for self-only coverage is affordable (less than 9.5 percent of total annual household income), the applicant and family members that were offered coverage will not qualify for the APTC and cost-sharing reductions.

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

1. An applicant applies for the APTC and cost-sharing reductions.
2. The applicant attests to whether he or she is eligible for non-ESI.
3. For an applicant who attests to having or being eligible for non-ESI, the marketplace verifies the attestation using the Data Hub<sup>45</sup> and determines the applicant ineligible for the APTC and cost-sharing reductions regardless of any information the marketplace receives from the Data Hub.

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<sup>44</sup> The Washington marketplace did not verify whether applicants were eligible for minimum essential coverage through ESI by obtaining information from OPM and Washington's SHOP because, according to marketplace officials, these sources verified ESI for a limited number of applicants (as noted in the "Findings" section of this report).

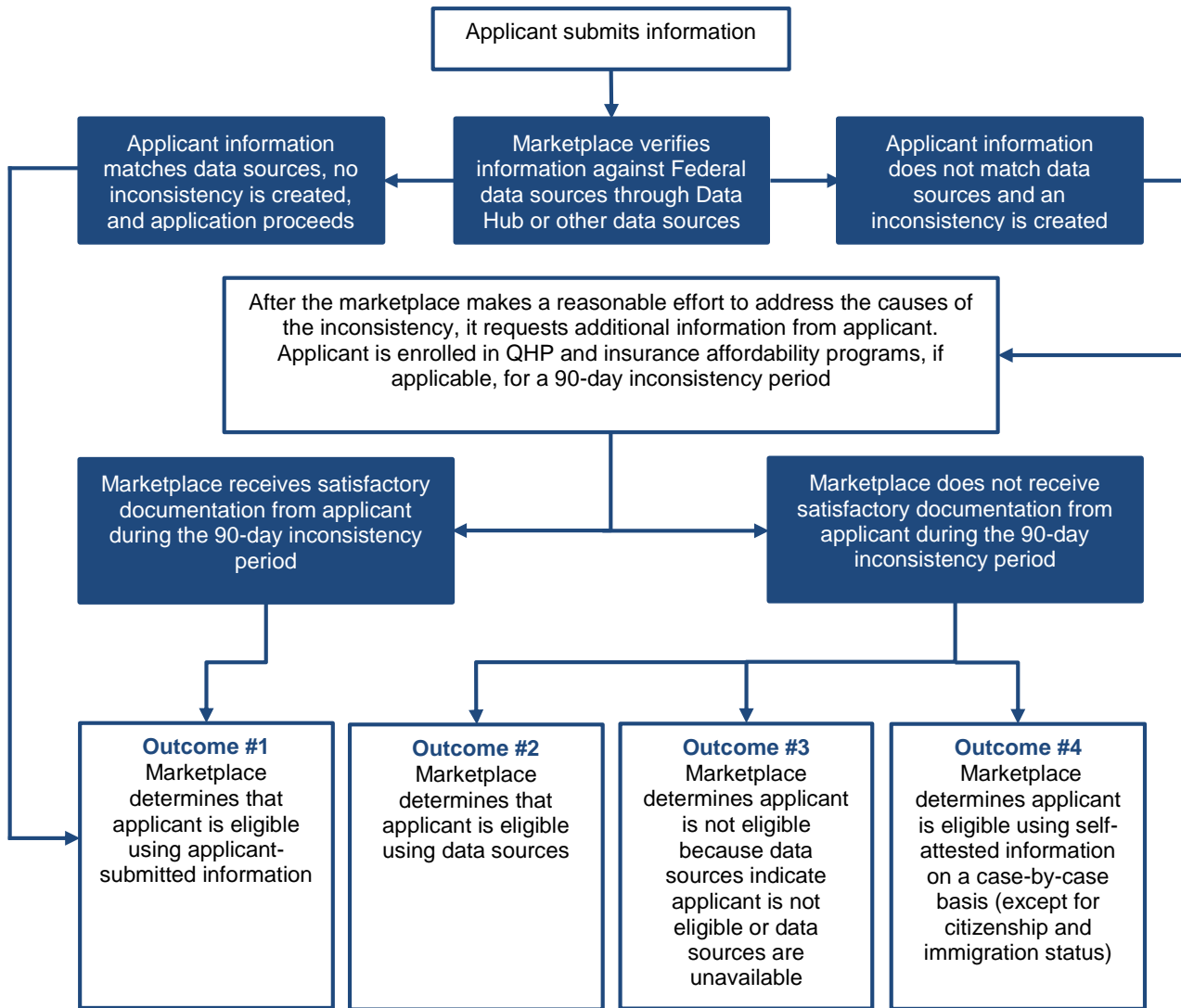
<sup>45</sup> The Data Hub checks data from Medicare, the Peace Corps, TRICARE, and the Veterans Health Administration. Insurance coverage provided under the Peace Corps and TRICARE are non-ESI in accordance with 26 U.S.C. § 5000A(f).

4. For an applicant who attests to not having or not being eligible for non-ESI, the marketplace verifies the attestation using the Data Hub.<sup>46</sup> If the Data Hub sources confirm that the applicant is not eligible for non-ESI, the marketplace determines the applicant to be eligible for the APTC and cost-sharing reductions if the applicant meets the other requirements, as applicable.
5. If the Data Hub sources return a record indicating that the applicant is eligible for non-ESI, the marketplace places the applicant in an inconsistency period. The applicant will be required to submit an explanation or additional documentation to substantiate either that the applicant is not eligible for these coverage types or that the coverage has ended.
6. During the inconsistency period, the applicant is granted eligibility for the APTC and cost-sharing reductions on the basis of the information included on the application.
7. If the applicant submits acceptable documentation to show that he or she is not eligible for non-ESI, the marketplace determines the applicant to be eligible for the APTC and cost-sharing reductions if the applicant meets the other requirements, as applicable.
8. If the applicant does not submit the requested documentation within the specified timeframe, the marketplace determines the applicant to be ineligible for the APTC and cost-sharing reductions on the basis of data obtained from the Data Hub.

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<sup>46</sup> During our audit period, the Washington marketplace did not always verify whether an applicant was eligible for non-ESI, as noted in the “Findings” section of this report.

**APPENDIX B: STEPS AND OUTCOMES FOR RESOLVING INCONSISTENCIES**



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

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

1. If the applicant's attested information cannot be verified through electronic data sources, the marketplace sends a letter to the applicant requesting an explanation or supporting documentation to resolve the inconsistency. The applicant is given 90 days from the date of the initial eligibility determination stated in the letter to provide the requested documentation. During the inconsistency period, the applicant may still enroll in a QHP and, when applicable, may choose to receive the APTC and cost-sharing reductions. An applicant may choose to enroll during the period only if the applicant is otherwise eligible to enroll in a QHP and may receive the APTC and cost-sharing reductions if (1) the applicant meets other eligibility requirements and (2) the tax filer attests that he or she understands that the APTC is subject to reconciliation. An applicant can provide the explanation or documentation by mail or fax or can upload the documentation through the marketplace Web site.
2. If the applicant does not provide any explanation or supporting documentation by the end of the 90-day inconsistency period, the marketplace determines the applicant's eligibility on the basis of data available from electronic data sources and the inconsistency is resolved. If no data are available from electronic sources, the applicant's enrollment may be terminated or the applicant may be determined ineligible for the APTC and cost-sharing reductions, as appropriate.
3. If the applicant provides documentation to support the attested information, the inconsistency is resolved.
4. If the applicant provides supporting documentation that is not sufficient to support the attested information, the inconsistency is considered unresolved. The marketplace attempts to contact the applicant by telephone to inform the applicant of the need to provide additional documentation. If the marketplace cannot reach the applicant by telephone, it sends a letter to the applicant indicating that the documentation was insufficient and requesting that the applicant provide sufficient supporting documentation. If the applicant provides this documentation within 30 days, the inconsistency is resolved. If the supporting documentation does not resolve the inconsistency or the applicant does not provide any documentation, the marketplace determines the applicant's eligibility on the basis of data from electronic sources.<sup>47</sup>

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<sup>47</sup> Because of defects in the enrollment system and resource issues, the Washington marketplace did not always resolve inconsistencies in our audit period, as noted in the "Findings" section of this report.

## APPENDIX D: OVERVIEW OF INTERNAL CONTROLS

### INTERNAL CONTROLS IN THE GOVERNMENT<sup>48</sup>

Internal controls, an integral component of an organization's management, provide reasonable, not absolute, assurance that the following objectives of an agency are being achieved:

- (1) effectiveness and efficiency of operations, (2) reliability of financial reporting, and
- (3) compliance with applicable laws and regulations.

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

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

### FIVE COMPONENTS OF INTERNAL CONTROL<sup>49</sup>

Internal control consists of five interrelated components:

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

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<sup>48</sup> Government Accountability Office's *Standards for Internal Control in the Federal Government: 1999* (known as the Green Book) and *Government Auditing Standards: 2011 Revision*. The Green Book was revised in September 2014, after our audit period.

<sup>49</sup> Committee of Sponsoring Organizations of the Treadway Commission: *Internal Control—Integrated Framework*, Executive Summary (May 2013).



## APPENDIX E: AUDIT SCOPE AND METHODOLOGY

### SCOPE

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

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

To determine the effectiveness of the internal controls, we:

- reviewed a sample of 45 applicants randomly selected from applicants who enrolled in QHPs during the open enrollment period (a total of 154,929 applicants), which included the review of supporting documentation to evaluate whether the marketplace determined the applicants' eligibility in accordance with Federal requirements, and
- performed other audit procedures, which included interviews with marketplace management, staff, and contractors and reviews of supporting documentation and enrollment records.

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

Our attribute sampling approach is commonly used to test the effectiveness of internal controls for compliance with laws, regulations, and policies. According to the Government Accountability Office and the President's Council on Integrity and Efficiency's *Financial Audit Manual* (July 2008),<sup>50</sup> section 450, auditors may use a randomly selected sample of 45 items when testing internal controls. If all sample items are determined to be in compliance with requirements, a conclusion that the controls are effective can be made. If one or more sample items are determined not to be in compliance with requirements, a conclusion that the controls are ineffective can be made. Because our objective was limited to forming an opinion about whether the Washington marketplace's internal controls were effective, our sampling

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<sup>50</sup> The President's Council on Integrity and Efficiency is now called the Council of the Inspectors General on Integrity and Efficiency (Inspector General Act § 11).

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

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

We performed fieldwork from June 2014 to January 2015 at the Washington marketplace office in Olympia, Washington. We also performed fieldwork at one marketplace contractor's office in Seattle, Washington.

## **METHODOLOGY**

To accomplish our objective, we:

- reviewed applicable Federal and State laws, regulations, and guidance;
- reviewed the Secretary of HHS's report on eligibility verifications for APTCs and cost-sharing reductions (submitted to Congress on December 31, 2013);
- assessed internal controls by:
  - interviewing officials from the Washington marketplace and their contractors and reviewing documentation provided by them to understand how the marketplace (1) verifies applicants' identities, (2) verifies information submitted on enrollment applications and makes eligibility determinations, and (3) maintains and updates eligibility and enrollment data and
  - reviewing the Washington marketplace's documents and records related to the marketplace's eligibility determinations, such as eligibility verification data;
- obtained enrollment records from the Washington marketplace for 154,929 applicants who enrolled in QHPs during the open enrollment period (October 1, 2013, through March 31, 2014);
- analyzed the enrollment records to obtain an understanding of information that was sent to QHP issuers;
- performed tests, such as matching records to the marketplace's enrollment system, to determine whether the enrollment data were reliable;
- performed testing of the Washington marketplace's internal controls for eligibility determinations by:

- using the OIG, Office of Audit Services, statistical software to randomly select 45 applicants who enrolled in QHPs during the open enrollment period (October 1, 2013, through March 31, 2014) and
- obtaining and reviewing eligibility data for each sample applicant to determine whether the marketplace performed the required eligibility verification and determination according to Federal requirements; and
- discussed the results of our review with Washington marketplace officials.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

## APPENDIX F: WASHINGTON MARKETPLACE COMMENTS



September 28, 2015

Lori A. Ahlstrand  
Regional Inspector General for Audit Services  
Office of Audit Services, Region X  
Office of Inspector General  
Department of Health and Human Services  
90- 7<sup>th</sup> Street, Suite 3-650  
San Francisco, California 94103

Dear Ms. Ahlstrand:

The Washington Health Benefit Exchange submits the following written comments on the draft Office of Inspector General (OIG) report entitled *Not All of the Washington Marketplace's Internal Controls Were Effective in Ensuring That Individuals Were Enrolled in Qualified Health Plans According to Federal Requirements*, Report Number A-09-14-01006.

The Exchange appreciates the OIG's review and the opportunity to provide comments on the draft report.

*Recommendation 1: Implement corrective actions to ensure that it (the Exchange) verifies whether all applicants are eligible for minimum essential coverage through non-ESI.*

The Exchange concurs with this recommendation. We are addressing the system design gap that causes the lack of verification and have an interim approach until the gap is corrected.

Due to a design gap, the Healthplanfinder application system did not always verify non-employer-sponsored insurance (Non-ESI) minimum essential coverage (MEC) through the Federal Data Services Hub. The Exchange implemented a code fix to resolve that design gap in May 2014, but recent analysis in August indicates that an additional code fix will be required to fully resolve the gap.

Eligibility determinations for the Healthplanfinder system are conducted through the automated Eligibility Service system operated by Washington State's Department of Social and Health Services (DSHS). Correcting the non-ESI MEC design gap will require a change request through established change management processes at DSHS; we estimate completion by July 2016.

We have adopted an interim approach until the design gap can be addressed. In cases where the member has other outstanding inconsistencies between the application and our available data sources, account workers also request proof of non-ESI MEC, in correspondence that is sent to the applicant to inform him or her of the need to provide this proof. The Exchange also relies on self-attestation in accordance with 45 CFR §155.315(f)(6) relating to inconsistencies.<sup>1</sup>

*Recommendation 2: Improve the design of its enrollment system to resolve all inconsistencies in eligibility data and determine applicants' eligibility on the basis of available electronic data sources as appropriate.*

The Exchange concurs with this recommendation. Early in initial Healthplanfinder operations, system defects, and a greater than anticipated number of applications with inconsistencies made resolving all inconsistencies very difficult. Staff from other programs, temporary staff, and call center representatives assisted in resolving inconsistencies. Priority was put on applications where there was active enrollment vs. applications without active enrollment.

The Exchange has focused on resolving all known system issues with eligibility determinations and inconsistency findings. All system defects discovered at the time this audit was conducted have been corrected. We will continue to correct any additional defects as they are discovered.

All accounts and inconsistencies were tracked manually by the Eligibility staff. At the time of the audit there was no workload management tool that staff used to track the resolution of inconsistencies.

In addition to resolving system defects, the Exchange has invested in a workload management tool, in which inconsistencies are tracked and prioritized for resolution. This tool provides additional technical support for the Eligibility staff to manage and resolve inconsistencies more efficiently and effectively.

*Recommendation 3: Improve the design of its enrollment system to properly verify annual income.*

The Exchange concurs with this recommendation. One result of this audit review has been a clarification of the applicable regulation. Rather than determining "reasonable compatibility" using the income amount, the Exchange uses Federal Poverty Level percentage. As the Report

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<sup>1</sup> "When electronic data to support the verifications specified in §155.315(d) or §155.320(b) is required but it is not reasonably expected that data sources will be available within 1 day of the initial request to the data source, the Exchange must accept the applicant's attestation regarding the factor of eligibility for which the unavailable data source is relevant."

Lori A. Ahlstrand  
September 28, 2015  
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notes, this results in more income inconsistencies than would result from using the income amount.

The Exchange is pursuing a change in the income verification process with DSHS, the operator of the Eligibility Service, where the calculation takes place. We expect it will be completed no later than July 2016.

*Recommendation 4: Develop and implement procedures to obtain information from OPM and Washington's SHOP to verify whether applicants are eligible for minimum essential coverage through ESI.*

The Exchange concurs with this recommendation. Currently the Exchange does not verify ESI MEC through electronic data sources nor does it verify this with the SHOP market records. At present time, the Exchange accepts self-attestation with the understanding that when a client is deemed eligible for Health Insurance Premium Tax Credits a notice is generated to their employer when the individual has indicated an offer of ESI to inform the employer that an employee was approved for tax credits. The Exchange currently relies on the employer to contact the Exchange appeals staff when a discrepancy is identified. The Appeals team then works with the employee and employer to correct the application and request a new eligibility determination.

The Exchange will review this finding and develop the requests for change to the Healthplanfinder application system necessary to implement this recommendation.

*Recommendation 5: We also recommend the Washington Marketplace redetermine, if necessary, the eligibility of the sample applicants for whom we determined that verifications were not performed according to Federal requirements.*

The Exchange concurs with this recommendation. Of the sample of 45 enrollees OIG selected, we identified five that had remained in conditional status. All have been redetermined. Two are enrolled, with inconsistencies resolved; three are not enrolled.

Thank you for the opportunity to comment. Please contact us if you have questions or would like additional information.

Sincerely,



Pam MacEwan  
Chief Executive Officer