

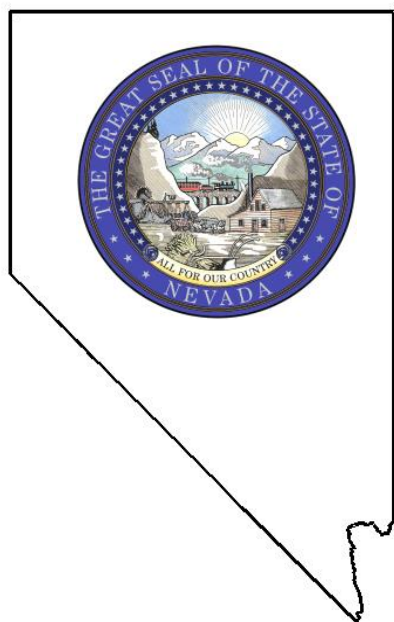
# STATE OF NEVADA

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## Performance Audit

Silver State Health Insurance Exchange

2016



Legislative Auditor  
Carson City, Nevada

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# Audit Highlights



Highlights of performance audit report on the Silver State Health Insurance Exchange issued on May 24, 2016. Legislative Auditor report # LA16-12.

## Background

The Silver State Health Insurance Exchange's (Exchange) mission is to increase the number of insured Nevadans by facilitating the purchase and sale of health insurance that provides quality health care through the creation of a transparent, simplified marketplace of qualified health plans.

During the 2011 Legislative Session, Senate Bill 440 established the Silver State Health Insurance Exchange to create and administer a state-based health insurance exchange, facilitate the purchase and sale of qualified health plans (QHP), and provide for the establishment of a program to help certain small employers in Nevada facilitate the enrollment of employees in QHPs.

The Exchange opened to the public as Nevada Health Link on October 1, 2013, and began offering insurance coverage on January 1, 2014. Starting in 2015, the Exchange operated as a Supported State Based Model utilizing the federal government's infrastructure for eligibility and enrollments through HealthCare.gov. However, it retained control over policy decisions, insurance plan certifications, consumer assistance, education and outreach, and marketing. For plan year 2015, the Exchange was self-sustaining from member fees on QHP insurance premiums.

## Purpose of Audit

The purpose of this audit was to determine if certain financial and administrative controls related to contract management and revenue collection were adequate. The scope of our audit included contract management practices and revenue collection controls and activities from January through October 2015.

## Audit Recommendations

This audit report contains 13 recommendations to improve controls over the contract monitoring and revenue collection processes.

The Exchange accepted the 13 recommendations.

## Recommendation Status

The Silver State Health Insurance Exchange's 60-day plan for corrective action is due on August 18, 2016. In addition, the six-month report on the status of audit recommendations is due on February 20, 2017.

# Silver State Health Insurance Exchange

## Summary

The Exchange needs to improve its contract monitoring process to ensure efficient use of fees assessed on members' health plan premiums. Specifically, it needs to improve its processes for monitoring navigator entities' activities to ensure entities are providing the intended services. These services include outreach, education, and enrollment assistance to the uninsured and underinsured populations. Further scrutiny should be given to entities' monthly payment requests, which include outreach and event reports, timesheets, and enrollment reports. Additionally, the Exchange needs to improve monitoring of its subcontracted outreach and education entity to ensure payments are an effective and efficient use of funds. Policies also need to be developed to address the payment of unlicensed navigators and mitigate potential associated risks. Finally, improved navigator representation in Northern Nevada is needed to ensure the region's targeted populations have access to unbiased enrollment assistance and are being served by outreach activities.

## Key Findings

The Exchange's review process is not sufficient to determine whether the navigator entities' outreach and event reports support the hours reportedly worked. Documentation for reported events supported only about 3,000 of the 17,900 (17%) staff hours paid from May through October 2015. While navigator entities perform various other activities, only six of the nine entities provided some explanation for those non-event activities. During the 6-month period, the nine navigator entities were paid \$368,000 to provide outreach, education, and enrollment assistance to the uninsured and underinsured populations. However, monitoring procedures are not sufficient to verify whether the events or activities attended were consistent with the Exchange's expectations. Correcting inconsistencies in entities' reporting and an enhanced review of entity activities would help ensure member fees are being utilized effectively. (page 8)

The monitoring of the outreach and education subcontractor's invoices and reported activities is not sufficient. Although the Exchange relies on the marketing contractor to monitor the subcontractor, we identified concerns with the subcontractor's reported hours, activities, and amounts it was compensated. Insufficient monitoring controls could lead to inefficient use or abuse of Exchange funds. For example:

- The subcontractor was paid \$90,000 to plan and develop a list of outreach events to attend which it presented to the Board. While the subcontractor attended 27 events from June through October 2015, only 9 were from the list of 64 events during that period. (page 17)
- From June through October 2015, the subcontractor reported spending about 270 hours attending events of the reported 4,725 hours worked, but invoices did not provide sufficient detail to know what specific services were performed during the remaining hours. (page 18)
- The Exchange paid a flat compensation rate of \$45,000 per month regardless of the amount of work performed by the subcontractor. Invoices showed the hours worked varied from 600 to 1,800 per month but compensation remained the same. (page 19)

Policies and procedures are needed to address the payment of unlicensed navigators and address associated potential risk factors. We found 25 of the 64 individuals employed by navigator entities from March through October 2015 were paid for enrollment and outreach services prior to being licensed. These unlicensed individuals were paid for periods ranging from a couple days to as many as 86 working days. This practice is not consistent with statutory requirements and may expose the Exchange and public to unnecessary risks. (page 21)

From May to mid-October 2015, there were no navigators providing traditional navigator services in Northern Nevada. Additionally, we noted there were only 11 education and outreach events attended in Northern Nevada between May and October 2015, compared to the more than 380 outreach events reported attended by the navigator entities and the outreach and education subcontractor in Southern Nevada. Improving navigator representation in Northern Nevada would ensure consumers have access to unbiased enrollment assistance, and outreach efforts are sufficient to reach the area's targeted populations. (page 22)

Although the Exchange deposited all checks we tested, internal controls over revenues need improvement. We found the Exchange does not adequately separate revenue collection duties. In addition, the Exchange can improve controls by monitoring receivables to ensure it collects all revenues timely, reconciling receipt logs to deposit records, and protecting financial records from unauthorized users. Furthermore, the Exchange's policies and procedures over revenue collection need updating. Good revenue controls minimize the risk of revenues being lost or stolen. (page 26)

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This report contains the findings, conclusions, and recommendations from our performance audit of the Silver State Health Insurance Exchange. This audit was conducted pursuant to the ongoing program of the Legislative Auditor as authorized by the Legislative Commission. The purpose of legislative audits is to improve state government by providing the Legislature, state officials, and Nevada citizens with independent and reliable information about the operations of state agencies, programs, activities, and functions.

This report includes 13 recommendations to improve controls over the contract monitoring and revenue collection processes. We are available to discuss these recommendations or any other items in the report with any legislative committees, individual legislators, or other state officials.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Rocky Cooper".

Rocky Cooper, CPA  
Legislative Auditor

May 4, 2016  
Carson City, Nevada

# Silver State Health Insurance Exchange

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# Introduction

## Background

The Silver State Health Insurance Exchange's (Exchange) mission is to increase the number of insured Nevadans by facilitating the purchase and sale of health insurance that provides quality health care through the creation of a transparent, simplified marketplace of qualified health plans.

During the 2011 Legislative Session, Senate Bill 440 established the Silver State Health Insurance Exchange to create and administer a state-based health insurance exchange, facilitate the purchase and sale of qualified health plans (QHP), and provide for the establishment of a program to help certain small employers in Nevada facilitate the enrollment of employees in QHPs. The State authorized the creation of the Exchange pursuant to the requirements of the federal Patient Protection and Affordable Care Act (ACA) and related amendments under the federal Health Care and Education and Reconciliation Act of 2010.

The Exchange's operational goals include the following:

1. Increase the number of insured persons in Nevada.
2. Facilitate the purchase and sale of health insurance.
3. Assist qualified employers in the enrollment and purchase of health coverage and the application for subsidies for enrollees.
4. Provide consumer education on matters relating to enrollment in and effective use of health insurance.
5. Assist residents of Nevada with access to programs, premium assistance tax credits, and cost sharing reductions.

The Exchange is governed by the Silver State Health Insurance Exchange Board (Board), consisting of seven voting members and

three nonvoting members including the Directors from the Department of Health and Human Services, Department of Business and Industry, and Department of Administration under the authority of NRS 695I.300. The Board appoints an Executive Director, who employs persons as necessary to carry out its intended functions, as funding allows.

### **Exchange Operations**

The Exchange opened to the public as Nevada Health Link (Nevadahealthlink.com) on October 1, 2013, as required by federal regulation. Insurance coverage was offered through the Exchange beginning January 1, 2014. States initially selected one of two primary models to comply with the federal mandate: 1) utilize the federal government's federally facilitated marketplace (FFM) or 2) develop a state based marketplace (SBM). Nevada chose to develop its own exchange as a SBM and engaged a contractor to design, develop, and implement a health insurance exchange system.

The Exchange's 2014 operations were largely defined in the public's eye by technological deficiencies. Various technology issues included problems with enrollments, billings, premium collections, and premium remittances. Nevada was not the only state to experience these types of issues. Many states, as well as the federal government, experienced issues when trying to roll out their exchanges to the public.

Pursuant to the complications experienced during 2014 and after significant efforts to rectify the prevalent problems with the existing system, the Board approved the option to no longer operate as a SBM on May 20, 2014. Instead, it decided the Exchange would utilize a hybrid model known as a Supported State Based Marketplace (SSBM) for plan year 2015. This decision meant the Exchange would utilize the federal infrastructure for eligibility and enrollment functions (HealthCare.gov). As a SSBM, the State retained control over the marketplace including policy decisions, insurance plan certification, consumer assistance, education and outreach, and marketing. The existing Nevada Health Link website was maintained as the entry point for enrollment, which

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linked with the federal eligibility and enrollment system as the operating platform.

A health insurance exchange is an on-line marketplace, or store, in which individuals can shop, compare, and enroll in health insurance coverage. When an applicant navigates to the Nevadahealthlink.com website, in addition to general information and guidance, he/she may select the enrollment process option. Through a series of basic questions, the website provides a pre-screening result indicating whether the applicant is likely eligible to purchase a QHP or eligible for services under the state's Medicaid or Nevada Check Up programs. This prescreening is not a formal determination of eligibility, but provides a single point of entry for individuals seeking to obtain health coverage. Applicants are then either directed to the federal exchange at HealthCare.gov for the QHP application process or to the Division of Welfare and Supportive Services, where applicants can formally apply for the respective services.

Nevada was one of three states functioning as a SSBM in 2015. Meanwhile, 34 states were classified as FFMs and the remaining 14 states, including the District of Columbia, were SBMs. For plan year 2015, the Exchange operated with 5 QHP insurance carriers and 10 dental plan carriers.

### **Revenues and Expenditures**

The Exchange was initially funded by federal establishment grants for the planning and implementation stages beginning in fiscal years 2012 and 2013. Beginning in fiscal year 2014, the Exchange was funded by a combination of federal grants and member fees. QHP member fees were first assessed in January 2014 on all insurance premiums purchased through the Exchange. As of January 2015, the Exchange was required to be self-sustaining based on QHP member fees.

The member fees were assessed as a set dollar rate, per enrollee, in plan years 2014 and 2015. The Board changed the fee structure to a 3% fee assessed on all pre-credit insurance premiums as of January 2016. Exhibit 1 shows the Exchange's



revenues by category for fiscal years 2012 through 2015, and the Legislative Approved Budget amounts for 2016.

**Actual and Budgeted Revenues  
Fiscal Years 2012 to 2016**

**Exhibit 1**

<b>Revenue Category</b>	<b>FY 2012 Actual</b>	<b>FY 2013 Actual</b>	<b>FY 2014 Actual</b>	<b>FY 2015 Actual</b>	<b>FY 2016 Budgeted</b>
Appropriations	\$ -	\$ -	\$ -	\$ -	\$ -
Beginning Cash	-	-	-	524,848	1,313,247
Federal Funds	2,349,882	28,397,137	21,543,479	29,025,448	-
Fees on Premiums	-	-	660,581	5,162,971	6,104,350
Other	-	7,284	68,845	1,389,030	-
<b>Available Funds</b>	<b>\$2,349,882</b>	<b>\$28,404,421</b>	<b>\$22,272,905</b>	<b>\$36,102,297</b>	<b>\$ 7,417,529</b>
<b>Less Total Expenditures</b>	<b>\$2,349,882</b>	<b>\$28,404,421</b>	<b>\$21,748,056</b>	<b>\$31,402,650</b>	<b>\$ 5,882,889</b>
<b>Reserve Balance</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 524,849</b>	<b>\$ 4,699,647</b>	<b>\$ 1,534,640</b>

Source: State accounting system.

Note: Other is primarily transfers from the Division of Health Care Financing and Policy.

The Exchange was authorized to obtain General Fund advances when the member fees are not sufficient to maintain its operations, pursuant to NRS 695I.510. During fiscal years 2012 to 2015, the Exchange received advances from the State General Fund totaling \$5.2 million to support operational costs. All advances were repaid to the General Fund consistent with the terms dictated in statute, requiring repayment within the fiscal year. As a result, the appropriations category in Exhibit 1 shows a net balance of zero.

No federal grant funds were budgeted in fiscal year 2016. However, in January 2016 management indicated federal grant funds of about \$6.8 million were authorized for use through December 2016. Of the amount authorized, \$4.4 million will be used for targeting unreached populations through outreach and education, and the remaining \$2.2 million will be used for project management costs including computers, networks, and security plans.

Through fiscal year 2015, the majority of the Exchange's expenditures were classified as grant expenditures. The majority of which were utilized in the development of the information technology platform and related program and development costs for the SBM model. Significant expenditures for fiscal year 2016

are personnel, operating (primarily marketing and outreach), and navigator costs. The shift in expenditures occurred because federal development and implementation grants ended and the Exchange moved to the federal exchange for eligibility and enrollment services for calendar year 2015. Exhibit 2 includes the significant expenditure types for fiscal years 2012 through 2015, and the Legislative Approved Budget amounts for 2016.

### Actual and Budgeted Expenditures Fiscal Years 2012 to 2016

**Exhibit 2**

Expenditure Category	FY 2012 Actual	FY 2013 Actual	FY 2014 Actual	FY 2015 Actual	FY 2016 Budgeted
Personnel	\$ 223,978	\$ 757,330	\$ 1,055,774	\$ 1,058,998	\$1,238,882
Operating	27,245	111,531	129,453	110,517	2,379,701
Navigators	-	-	195,270	229,068	2,200,000
Federal Grants	1,306,916	11,896,899	12,311,180	24,651,663	-
Transfers to Other Agencies	764,697	15,399,483	8,027,060	5,302,243	-
Other	27,046	239,178	29,319	50,161	64,761
<b>Total</b>	<b>\$2,349,882</b>	<b>\$28,404,421</b>	<b>\$21,748,056</b>	<b>\$31,402,650</b>	<b>\$5,882,889</b>

Source: State accounting system.

Note: Navigators were previously funded primarily under the grants expenditure category until 2016. Grants category also includes expenditures for system development, marketing, consulting and actuarial services. Other expenses include travel, equipment, information services, training, and cost allocations.

In fiscal years 2014 and 2015, grant funds were paid to navigator entities totaling \$1.8 million and \$1.7 million, respectively. Beginning in fiscal year 2016, these expenditures were recorded in the separate navigators expense category. Starting January 1, 2015, the navigator entities were paid using fees collected on pre-subsidized QHP premiums. From May through October 2015, the navigator entities performing outreach, education, and enrollment functions were paid \$368,000. During that period, the entity staffing the Exchange's call center was paid \$127,000.

### Consumer Assistance Programs

Per federal mandate, the Exchange is required to establish consumer assistance programs, including a navigator program and a certified application counselor (CAC) program. To operate as a navigator or CAC, individuals are required to obtain training through the federal Centers for Medicare and Medicaid Services (CMS) and certification as an exchange enrollment facilitator (EEF) through the Division of Insurance.

Navigators are responsible for enrollment of Nevada’s uninsured and underinsured individuals and families. They provide these populations with information regarding program eligibility, methods of purchase, reasons to purchase, definitions of health terms, access to enrollment localities, and other services. They provide answers to enrollment questions and give people unbiased explanations of plans offered through HealthCare.gov. Navigator entities enter into contractual agreements with the Exchange and are compensated for their services.

In addition to navigators and CACs, insurance brokers provide enrollment information to consumers and assist in the education of consumers regarding the available health care options. Brokers are outside the purview of the Exchange and are compensated by insurance carriers based on the brokers’ contractual agreements with each insurance carrier. CACs are also not paid by the Exchange.

### **QHP Enrollment Information**

The success of the program is gauged largely by the number of enrollments in QHPs. Enrollment figures have shown steady increases from plan year 2014 through 2016. Exhibit 3 shows the reported enrollments over the last three enrollment periods.

**Nevada QHP Enrollments** **Exhibit 3**  
**Plan Years 2014 to 2016**

	<b>2014</b>	<b>2015</b>	<b>2016</b>
<b>Enrollments</b>	38,043	73,596	88,145

Source: Silver State Health Insurance Exchange records.

Note: Figures are as of the end of the open enrollment period. Enrollment numbers may decline as some participants stop making premium payments during the year. For example, in 2014, the number of enrollments decreased to about 30,000 by the end of the year.

### **Potential Changes to Future Exchange Operations**

Outside forces could significantly impact the Exchange’s operations going forward. For example, CMS recently proposed to assess a fee of 3% on premiums for using HealthCare.gov to host the eligibility and enrollment functions on behalf of states like Nevada. Such a fee would significantly impact the Exchange and

its QHP enrollees as the existing member fee for plan year 2016 is also 3%, which is used to fund the Exchange's operations. One option being considered by the Exchange is to work with other states to find a cost-effective alternative to the federal infrastructure. Other forces, such as political changes, also have the potential to impact the Exchange's operations.

### **Staffing**

As of March 2016, the Exchange had 13 approved, full-time positions to manage its operations. All employees are unclassified and serve at the pleasure of the Director.

## **Scope and Objective**

The scope of our audit included contract management practices and revenue collection controls and activities from January through October 2015. Our audit objective was to:

- Determine if certain financial and administrative controls related to contract management and revenue collection were adequate.

This audit is part of the ongoing program of the Legislative Auditor as authorized by the Legislative Commission, and was made pursuant to the provisions of NRS 218G.010 to 218G.350. The Legislative Auditor conducts audits as part of the Legislature's oversight responsibility for public programs. The purpose of legislative audits is to improve state government by providing the Legislature, state officials, and Nevada citizens with independent and reliable information about the operations of state agencies, programs, activities, and functions.

# Contract Monitoring Process Needs Improvement

The Exchange needs to improve its contract monitoring process to ensure efficient use of fees assessed on members' health plan premiums. Specifically, it needs to improve its processes for monitoring navigator entities' activities to ensure entities are providing the intended services. These services include outreach, education, and enrollment assistance to the uninsured and underinsured populations. Further scrutiny should be given to entities' monthly payment requests, which include outreach and event reports, timesheets, and enrollment reports. Additionally, the Exchange needs to improve monitoring of its subcontracted outreach and education entity to ensure payments are an effective and efficient use of funds. Policies also need to be developed to address the payment of unlicensed navigators and mitigate potential associated risks. Finally, improved navigator representation in Northern Nevada is needed to ensure the region's targeted populations have access to unbiased enrollment assistance and are being served by outreach activities.

## **Review of Outreach and Event Reports Not Adequate**

The Exchange's review process is not sufficient to determine whether the navigator entities' outreach and event reports support the hours reportedly worked. Documentation for reported events supported only about 3,000 of the 17,900 (17%) staff hours paid from May through October 2015. While navigator entities perform various other activities, only six of the nine entities provided some explanation for those non-event activities. During the 6-month period, the nine navigator entities were paid \$368,000 to provide outreach, education, and enrollment assistance to the uninsured and underinsured populations. However, monitoring procedures are not sufficient to verify whether the events or activities attended were consistent with the Exchange's expectations. Correcting inconsistencies in entities' reporting and an enhanced review of

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entity activities would help ensure member fees are being utilized effectively.

Navigator entities were selected through a request for application process initiated by the Exchange in early 2015. Ten entities were engaged to perform navigator services through sub-grant awards and related controlling documents. Out of the 10 entities, 1 was selected to staff the consumer assistance call center; the remaining 9 were engaged to perform outreach and enrollment duties. For purposes of this report, we will refer to these awards and related agreements with the navigator entities as contractual agreements.

Information provided by navigator entities to support their payment requests was not sufficiently detailed. Between May and October 2015, the 9 navigator entities, which perform outreach and enrollment, reported attending about 360 events on the monthly outreach and event reports. These reports only require entities to indicate the number of events attended and enrollments conducted, and provide a brief description. While some entities submitted supporting documentation related to the events attended with the outreach and event reports, the majority did not. Entities are required to maintain records to support their activities; however, the Exchange did not request this information as part of its contract monitoring process.

Because the Exchange did not have detailed information on the navigator entities' activities, we requested supporting details for all events and activities from May through October 2015. Based on our review of this information, we found documentation of reported events supported about 17% of the total staff hours paid during that 6-month non-enrollment period. While navigator entities performed various other activities in addition to attending events, only six of the nine entities provided some explanation for those non-event activities. The descriptions included activities such as social media posts, emails, navigator examination preparation, training, and assisting walk-in customers. However, based on the details provided, we were unable to determine whether the remaining 83% of the paid hours were spent on Exchange related activities.

Because the Exchange's review process does not require the entities to provide detailed information or supporting documentation of the specific activities and duration of those activities, it is difficult for the Exchange to know how most of the entities' time is spent. The following examples demonstrate the need for additional review and insight into the activities of the navigator entities:

- One entity reported attending 32 events during May through October totaling about 197 hours. Other than social media activity, the entity did not provide support for the remaining time paid for by the Exchange. The entity reported working 5,070 total hours and was paid \$104,292 during the course of those months.
- Another entity reported attending 23 events during May through October totaling about 155 hours. Although the entity listed that they helped consumers at three locations, disseminated Exchange information on their quarterly outreach magazine, and provided a list of business contacts made during those months, no specific time spent on any of those activities was listed. The entity reported working 1,098 total hours and was paid \$22,094 during the course of those months.

Identifying the time and duration of specific duties performed by navigators is important considering the significant differences in the primary operational focus of many of the entities. The entities engaged by the Exchange offer various other unrelated services including operating drug addiction recovery programs; offering tax help and financial guidance; providing GED, language, and computer classes; providing debt consulting; and conducting food bank operations. As a result, it is important for the Exchange to be able to differentiate between the time the navigators spend specifically representing the Exchange and providing these other services to ensure the entities are only compensated for Exchange related activities.

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### **Review of Events Could Benefit Program**

The outreach and event report submitted by navigators does not provide sufficient insight into the entities' activities, nor does it provide insight into the populations being served by the events or activities. Furthermore, the Exchange's review process does not require a proposed events list to be provided ahead of time to allow for review by the Exchange. Such practices would allow the Exchange to gauge whether these events are the most effective use of time, and whether they adequately serve a targeted audience that is underserved.

In reviewing the specific event details provided pursuant to our request, we identified certain events that were attended by navigator entities that may not be examples of the most effective use of member fees. For example:

- One navigator entity repeatedly attended the same events even though the number of attendees and contacts reported were minimal.
- Another entity reported attending events including an international lingerie convention, a belly dance festival, and a cocktail party fundraiser sponsored by another navigator entity.

In contrast, we noted other entities attended events such as the Henderson Community Expo, Laborer's Annual Health Fair, National Hispanic Heritage Month Celebration, and the Susan G. Komen Race for the Cure. Without adequate detail, the Exchange does not have sufficient information to take corrective actions, if needed.

Exchange management indicated they rely upon the expertise of the navigator entities to identify which events to attend. While we recognize the uninsured and underinsured may be anywhere, events that are health related or focused on the targeted populations may be considered a better use of time and valuable resources. Improved review procedures, including obtaining lists of proposed events, will help ensure resources are being utilized in the most productive manner.



During our audit, the Exchange developed a site visit form to be used to conduct monthly site visits to Navigator entities. Additionally, staff indicated they began requesting navigator entities to provide calendars of planned events on a monthly basis.

### **Improved Guidance Needed for Navigators' Reporting of Events and Activities**

We also found significant inconsistencies in what navigator entities were counting as an "outreach event." For example:

- Some counted sending emails, brief meetings, dropping off marketing materials, and attending navigator orientation or training provided by the Exchange as an outreach event. Conversely, some reserved the term "outreach event" for more traditional activities such as health fairs or similar more substantial events.
- In another example, one entity reported daily attendance at a Nevada JobConnect center as a daily outreach event, while another entity made similar visits and did not report them as events.

If the term "outreach event" and other pertinent activity types were better defined by the Exchange, the Exchange would be better able to understand what specific services the navigators are performing and better evaluate their performance. Other pertinent activity types may include: social media outreach, flyer distribution, meetings with pastors/group leaders, door-to-door contacts, or shopping mall contacts.

The Exchange's internal control procedures state the Exchange monitors the entities to ensure they are using the funds for authorized purposes. Procedures also state that it monitors the activities of agencies receiving funds to ensure they are complying with the program requirements and are achieving the performance goals. However, by only obtaining basic information on events and not specifically monitoring the activities performed, incorrect information may be given to the Board and public about the

effectiveness of the navigator program and funds may not be utilized effectively.

### **Improved Review of Navigator Payment Requests Needed**

The Exchange's payment request review processes are not sufficiently detailed to determine whether the navigator entities' reported work hours are accurate and appropriate. Although the reported work hours are used to calculate the amount entities are compensated, the basic information obtained from the entities does not always provide enough detail to ensure claimed hours are directly related to activities benefitting the Exchange. Additionally, the review process is not sufficiently detailed to investigate abnormalities or insufficiencies in reported information. Improved reporting requirements for navigator entities and review processes will help ensure that payments are sufficiently supported and appropriate.

Navigator entity monthly payments are based on timesheet information submitted to the Exchange. The entities are paid up to \$3,500 per employee per month, based on the number of hours worked in the month as a percentage of potential standard work hours. Funding for the navigator entities comes from fees assessed on pre-subsidized premiums paid by qualified health plan (QHP) customers. As a result, it is important to ensure member fees are being utilized in the most efficient and effective manner.

#### **Timesheet Review Could Be Improved**

The Exchange's contract monitoring process and related policies do not sufficiently address how to review payment requests and substantiate information reported. Through our review of the navigator entities' timesheet information provided with the payment requests, we identified concerns with some of the reported information. Examples of concerns included:

- Three of the nine navigator entities reported their employees worked full-time hours from June through September 2015 without taking any time off during that 4-month period for vacation, sickness, or any other reason. Other entities reported employees working 8 consecutive hours each day with no break for lunch.

- We identified at least 10 instances, reported by 5 of the 9 entities, where an event was reported as being attended that occurred on a day or time when entity timesheets indicated no staff were working. For the other four entities, the timesheets were not sufficiently detailed to identify such instances.
- The Exchange staff indicated they rely on the entities' employees and management to sign off on timesheets to verify their accuracy. However, our review identified multiple timesheets that were not signed by the employee and/or supervisor.

In spite of these irregularities and differences in the timesheet submissions and lack of signatures, the Exchange paid these payment requests without investigating the accuracy of the hours reported.

The deficiencies in monitoring identified could lead to possible abuse as the role of monitoring largely falls on the entities that benefit the most from reporting the maximum allowable hours to obtain the maximum amount of funding. Contracting best practices indicate that monitoring is an essential part of the contracting process. It should include ensuring that the contractor complies with terms of the agreement, performance expectations are met, and problems or concerns are identified and resolved timely. Without a sound monitoring process, the Exchange does not have adequate assurance it receives what it contracted for.

#### **Detailed Timesheet Information Would Benefit the Payment Request Review Process**

The Exchange collects timesheets from the entities as verification of time worked, but the detail expected on a timesheet to support funding requests, such as days worked and hours worked on those days, is not specified. Because of the insufficient reporting standards, we found the format and content of the timesheets submitted by navigator entities to be inconsistent. Some entities provided detailed timesheets on each employee indicating which days were worked during the month, including clock-in and clock-out times. Other entities provided only a weekly summary of total

hours with all employees listed on the same document. Some entities varied the format of their timesheets between months.

Furthermore, current reporting requirements do not request the entities to designate the time spent on each activity type, such as administrative duties, or define an acceptable percentage of time that should be spent on such duties. Because the Exchange has not established a specific requirement for how entities should report the amount of time spent on each activity, it does not have sufficient insight into how time is spent. For example, one entity is funded almost exclusively by the Exchange and two of their navigators hold positions such as Chief Operations Officer and Administrative Manager. While those employees reported working full-time for the Exchange, the amount of the time spent on administrative duties to run their own organization could not be readily determined from the reported information, if it was included in the reported hours.

Having timesheet detail would help the Exchange to better monitor contractor performance, adherence to contractual obligations, and to analyze how time is spent on different activities such as events, in-person assistance, administration, social media, distribution of marketing materials, etc. It would also give the Exchange better knowledge of the nature of the work done on their behalf in the community. While the Exchange's agreement with the entities indicates documentation will be required to verify the number of hours worked and that they were performed on behalf of the Exchange, monitoring procedures do not include a sufficient level of review to make such a determination. By establishing improved reporting requirements and enhancing the review process in formalized policies and procedures, the Exchange could help ensure it is only paying for those services rendered on its behalf.

## **Enrollment Reporting Process Needs Clarification**

The Exchange's process for monitoring navigator entities' enrollments through the existing monthly enrollment report is not sufficiently detailed. Additional information would help ensure the Exchange understood the nature of the enrollments. Although historical information indicates that enrollments facilitated by navigators do not account for a significant portion of total enrollments, monitoring this information is important to ensure

they are adequately representing the Exchange and performing their contracted duties.

Navigator entities are required to provide the number of enrollments in QHPs on their monthly enrollment reports submitted to the Exchange with their monthly funding requests. However, we found the navigators' reported enrollment reports are vague, and there are inconsistencies in how the entities are reporting enrollments. Specifically, four of the nine navigator entities counted Medicaid enrollments in their reported QHP enrollment numbers. Information obtained from the other five entities was not sufficient to determine if their reported enrollment numbers also included Medicaid program enrollments.

Enrollments in QHPs or Medicaid programs both satisfy aspects of the ACA's objectives. In both scenarios, the appropriate services are intended to fit the needs of the eligible individuals based on their circumstances. However, for purposes of managing the navigator entities, understanding how successful enrollment efforts are for each type of enrollment plan is important.

Furthermore, the Exchange is not requiring entities to report the QHP in which they assisted individuals to enroll. In the navigator program solicitation, the Exchange indicated it would monitor this information to ensure that the entities were not steering customers to any specific plan. It was anticipated the federal government would provide this type of enrollment information when the Exchange adopted the federal enrollment infrastructure; however, it has not been provided. In the absence of this data, the Exchange could improve its monitoring by enhancing the enrollment reporting requirements to assist in the evaluation of the performance of navigator entities and help ensure impartial guidance is being provided.

## **Performance Monitoring Standards Should Be Better Defined**

The Exchange has not clearly specified what a satisfactory level of performance is for the number of outreach events or enrollments. Navigator entities established targets that were not realistic and adjustments were not made timely to establish routine monitoring of progress towards goals. As a result, it is difficult to assess the performance of the navigator entities.

The Exchange indicated the performance expectations were established in the entities' proposals and would be assessed at the end of the agreement period. However, the eight entities that provided event and enrollment goals were generally unrealistic. For example, three entities proposed to attend more than 1,000 events and another entity proposed more than 2,000 enrollments during the non-enrollment period. Based on the reported results, we found that between May and October 2015 the entities only performed about 7% of the targeted number of events and 5% of the enrollments during the non-enrollment period. By formalizing realistic goals with the entities and routinely monitoring progress towards them, the Exchange can better analyze the performance of these entities. Without defined, realistic expectations, it is difficult to assess their progress towards meeting established program outcomes.

### **Subcontract Monitoring Processes Not Sufficient**

The monitoring of the outreach and education subcontractor's invoices and reported activities is not sufficient. Although the Exchange relies on the marketing contractor to monitor the subcontractor, we identified concerns with the subcontractor's reported hours, activities, and amounts it was compensated. Insufficient monitoring controls could lead to ineffective use or abuse of Exchange funds.

#### **Services Provided Are Not Sufficiently Scrutinized**

The Exchange needs to improve its contract monitoring process to ensure it is receiving legitimate services for the funds expended. For example, the outreach and education subcontractor was paid \$90,000 to plan and develop a list of events to attend which it presented to the Board. While the subcontractor attended 27 events from June through October 2015, only 9 were from the list of 64 events during that period. Significant expenditures should be adequately supported and justified before being paid.

From June through October 2015, the Exchange paid the marketing contractor \$225,000 for education and outreach services performed by a subcontractor. During the first 2 months of the agreement, in June and July 2015, the subcontractor's invoices reported it attended 1 outreach event and 11 staff performed planning and strategizing activities to compile a list of outreach

events they intended to attend on behalf of the Exchange. The subcontractor had previous experience with planning for such types of events having functioned as a navigator entity for the 2 preceding years for the Exchange.

In August 2015, the subcontractor presented a list of 88 events to the Board identified as being beneficial to the Exchange and represented it would have the resources necessary to attend the events. Of the 88 events, 64 were scheduled for August through October. While the subcontractor reported it attended 27 events during these months, only 9 were from the list presented to the Board. In addition, three events from that list, not attended by the subcontractor, were attended by navigator entities. There was no indication the contractor or subcontractor were questioned as to why 52 of the 64 events were not attended. This lack of scrutiny is concerning considering the subcontractor was paid \$90,000 for the initial two months of its contract to primarily plan for and develop this list of events.

Additionally, the Exchange should have requested additional information to understand what specific activities are being performed on behalf of the Exchange for the hours reported. For example, from June to October, the subcontractor reported spending about 270 hours attending events, out of the 4,725 hours it reported. They were paid \$225,000 for outreach services during this time period. While the invoices indicate in general terms that other services included planning, strategizing, and related activities, the information is not sufficiently detailed to understand what specific services were performed.

### **Compensation Is Not Based On Hours Worked**

The Exchange paid a flat compensation rate of \$45,000 per month regardless of the actual performance by the subcontractor. The subcontractor's invoices showed that actual hours spent working on behalf of the Exchange varied significantly; however, the amount paid to them did not. As a result, the Exchange may be overpaying for outreach and education services. Exhibit 4 shows a summary of the subcontractor billing information from June through October 2015.

**Subcontractor Billings Summary  
June to October 2015**
**Exhibit 4**

<b>Month</b>	<b>Employees</b>	<b>Reported Hours</b>	<b>Average Hours Per Employee</b>	<b>Monthly Compensation</b>	<b>Equivalent Hourly Rate</b>
June	11	600	54.5	\$ 45,000	\$75.00
July	11	655	59.5	45,000	69.70
August	11	710	64.5	45,000	63.38
September	11	960	87.3	45,000	46.88
October	13	1,800	138.5	45,000	25.00
<b>Total</b>		<b>4,725</b>	<b>82.9</b>	<b>\$225,000</b>	<b>\$47.60</b>

Source: Silver State Health Insurance Exchange records.

Note: Monthly compensation also included certain reimbursable expenses related to event fees which totaled \$1,610.

The subcontractor was compensated \$45,000 each month even though the subcontractor reported working 600 hours in June and 1,800 in October. The Exchange's agreement with the marketing contractor did not specify a monthly amount the Exchange would pay for the outreach and education services. Because the amount paid did not fluctuate, the equivalent rate of compensation to the subcontractor averaged about \$48, from a low of \$25 to a high of \$75 per hour. For comparison purposes, navigator entities were compensated at a rate of approximately \$20 per hour, up to a maximum of \$3,500 per employee per month.

The significant increase in hours in October coincides with the preparation for the open enrollment period that ran from November through the end of January. During this period, we would anticipate the subcontractor's services to be utilized at a higher rate than during the non-enrollment period which runs for 9 months of the year. As a result, consideration should be given to paying the subcontractor based on the hours actually worked to ensure the member paid fees are being efficiently utilized.

Exhibit 5 shows a portion the subcontractor's June 2015 invoice including reported hours worked:



**Subcontractor's June 2015 Invoice Hours** **Exhibit 5**

Name	Hours	Costs
Employee 1	100	\$10,000
Employee 2	50	3,500
Employee 3	50	3,500
Employee 4	50	3,500
Employee 5	50	3,500
Employee 6	50	3,500
Employee 7	50	3,500
Employee 8	50	3,500
Employee 9	50	3,500
Employee 10	50	3,500
Employee 11	50	3,500
<b>Totals</b>	<b>600</b>	<b>\$45,000</b>

Source: Silver State Health Insurance Exchange records.

Additionally, the subcontractor's invoices provided only monthly totals for staff hours worked and a basic description of the services rendered that was repeated in various months. The invoice described the services performed as follows:

***Outreach research and engagement. Staff compiled list of potential outreach opportunities in southern Nevada, and connected with entities to determine opportunities for engagement on behalf of NHL. These efforts included several phone calls, emails and site visits to locations to determine suitability of event and engagement opportunities.***

The subcontractor's invoice for July included the same description of activities and indicated one event was attended. Considering 11 subcontractor staff worked for 2 months preparing the list of outreach activities to provide to the Board, and only attended 9 of them from the list, additional scrutiny should be given to the invoices to determine what service was rendered before issuing the payment.

The Exchange should require the marketing contractor to submit detailed billing information from the subcontractor to ensure payment requests are sufficiently supported. Furthermore, policies and procedures need to be developed to establish a process for reviewing and approving the payments to the outreach and education subcontractor to ensure payments are commensurate with the hours worked. Contract monitoring is an essential part of the contracting process to ensure performance

expectations are achieved and issues are identified and resolved. Monitoring also helps ensure that the funds are being utilized in the most appropriate manner.

## **Policy Needed to Address Payment of Unlicensed Navigators**

Policies and procedures are needed to address the payment of unlicensed navigators and address associated potential risk factors. We found 25 of the 64 individuals employed by navigator entities from March through October 2015 were paid for enrollment and outreach services prior to being licensed. These unlicensed individuals were paid for periods ranging from a couple days to as many as 86 working days. This practice is not consistent with statutory requirements and may expose the Exchange and public to unnecessary risks. As a result, the Exchange needs to develop policies and procedures to address the practice of paying unlicensed navigators and develop requirements for navigator entities to mitigate risks associated with this practice.

The contracted navigator entities submit monthly invoices including the employed individuals' names to the Exchange. The Exchange reviews the individuals' navigator license status through the Division of Insurance's (DOI's) website. The navigator license is formally referred to as an exchange enrollment facilitator (EEF). If an individual is not listed on the website as having received his/her license, the Exchange contacts the DOI to verify whether the individual has submitted an application. If the application has been submitted indicating the training and education requirements have been met, the Exchange will process the payment. According to the Exchange, this practice was adopted to ensure navigators were able to perform their services for the public in spite of delays in the licensing process, primarily resulting from the time required for the background check to be completed.

The licensing process is intended to protect citizens and the Exchange from having unqualified individuals assisting the public with enrolling in health care plans. The DOI's navigator licensing process includes completion of an education course and examination, and successful passage of a fingerprint-based criminal history background check. NRS 695J.280 states no person may engage in the business of an exchange enrollment

facilitator unless a certificate has been issued to the person by the Commissioner of the Division of Insurance. Furthermore, the Request for Application issued by the Exchange for navigator services and agreements signed by navigator entities indicate reimbursements will only be approved for licensed navigators.

Navigator entity outreach and enrollment activities include face-to-face interactions with the public. Additionally, when navigator entities assist individuals in the enrollment process, personal identifying information is shared with the navigator. As a result, there is a risk that an unlicensed navigator, who may otherwise be disqualified from performing these duties based on the results of the background check, could potentially abuse the access to an individual's personal information. This poses a risk to the enrollee and potential negative exposure to the Exchange in the event such a scenario occurred.

As a result, the Exchange needs to define in a written policy its practice and reasoning for paying the unlicensed navigators and address the apparent conflict with statutory language and contractual agreements. Furthermore, it should establish requirements for the navigators to mitigate the risks associated with the unlicensed navigators handling sensitive personal information while representing the Exchange. Such improvements will mitigate the potential risks of having unlicensed individuals represent the Exchange. According to Exchange staff, navigators are verbally instructed to not speak to or assist in enrolling customers prior to obtaining their license. However, this is not included in formal training materials or documented in policy.

**Improved  
Navigator  
Representation  
Would Benefit  
Northern  
Nevadans**

From May to mid-October 2015, there were no navigators providing traditional navigator services in Northern Nevada. Additionally, we noted there were only 11 education and outreach events attended in Northern Nevada between May and October 2015, compared to the more than 380 outreach events reported attended by the navigator entities and the outreach and education subcontractor in Southern Nevada. Improving navigator representation in Northern Nevada would ensure consumers have access to unbiased enrollment assistance, and outreach efforts are sufficient to reach the area's targeted populations.

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At the Board meeting in April 2015, Exchange management said they would attempt to ensure navigator representation was statewide and that the ratio of navigators was close to population ratios of 25% to 75%, North and South respectively. However, excluding the call center staff, there were a total of 50 navigators between May and October 2015 performing traditional navigator duties. Only one was located outside of Southern Nevada.

From the Exchange's January 2015 solicitation for entities to provide navigator services, three navigator entities agreed to provide navigators in Northern Nevada and areas outside of Southern Nevada. However, two of these entities did not hire staff to service those areas as indicated on their contracts with the exception of one person hired in the North in mid-October. The other entity was chosen to staff the consumer assistance call center in Carson City. Although this entity's staff are licensed navigators, they do not routinely provide face-to-face service to the public to assist in enrollment or engage in education and outreach as the other navigator entities do.

Although call center staff may assist with enrollments over the phone, a consumer seeking in-person assistance with a QHP enrollment in the North would only have the option of an insurance broker. While brokers provide an important role in assisting with the enrollment in qualified health plans, they are compensated by insurance companies for enrollments in their plans. The ACA requires navigator entities to conduct public education activities; maintain a physical presence in the service area so that face-to-face assistance can be provided to applicants and enrollees; and provide services in a fair, accurate, and impartial manner.

Exchange staff indicated that increasing navigator representation in the North has been difficult. The Exchange cannot force entities to participate in the navigator program. However, strategic decisions could be made to encourage entities and individuals to participate. Navigator entities and/or EEFs may be less inclined to work in Northern Nevada considering the solicitation established compensation rates lower in Northern Nevada than in Southern Nevada, \$3,000 per navigator per month in the North compared to \$3,500 per month in the South. Furthermore, the cost of obtaining

the navigator license of about \$450 may be a barrier to entry for some potential candidates. The Exchange could incentivize individuals or entities to become navigators by paying for or refunding the cost of licensing. By developing a strategy that leverages existing resources and incentivizes participation, the Exchange could improve navigator representation in the North.

### **Recommendations**

1. Require more detailed accounting of time by specific activity type, events, enrollments, and other activities from navigator entities to provide a better understanding of services rendered to support payment requests.
2. Develop policies and procedures to perform thorough reviews of navigator entity funding requests to ensure information reported is reliable and payments are appropriate under contract terms.
3. Require the marketing contractor to provide monthly reports on the services performed by the outreach and education subcontractor including an accounting of time by specific activity to support billing amounts.
4. Develop policies and procedures to evaluate services performed by the outreach and education subcontractor to ensure funds are paid for actual services rendered in behalf of the Exchange.
5. Establish clearly defined performance measures for navigator entities' outreach activities and enrollments, and monitor monthly progress towards those measures.
6. Establish clearly defined standards for navigator entities for deliverables including timesheets, and supporting documentation for reported outreach and enrollment numbers.
7. Formalize a written policy regarding the payment of unlicensed navigators working for navigator entities.
8. Establish requirements for navigator entities to mitigate the risks associated with unlicensed navigators handling sensitive information while representing the Exchange.

9. Enhance existing strategy to improve navigator representation in Northern Nevada.

## Enhanced Controls Over Revenue Collection Needed

Although the Exchange deposited all checks we tested, internal controls over revenues need improvement. We found the Exchange does not adequately separate revenue collection duties. In addition, the Exchange can improve controls by monitoring receivables to ensure it collects all revenues timely, reconciling receipt logs to deposit records, and protecting financial records from unauthorized users. Furthermore, the Exchange's policies and procedures over revenue collection need updating. Good revenue controls minimize the risk of revenues being lost or stolen.

For the nine months ending September 30, 2015, the Exchange collected about \$6.4 million. Of this amount, \$822,000 was collected in the form of checks. Ensuring proper controls are in place and operating effectively are important to safeguard these funds.

### **Separation of Duties Not Adequate**

The Exchange does not have proper separation of duties in the revenue collection and deposit process. Accounting duties for billing, collecting, recording, and depositing revenues were not adequately separated among employees. Specifically, we found the employee who records the payments in the accounting system also has access to the check log and receipt log, and is given the physical check. In addition, this same employee prepares invoice billings and maintains accounts receivable records. Although the Exchange has policies and procedures related to the revenue collection and deposit processes, they are not adequate enough to guide employees in these processes. Separation of duties helps prevent fraud, waste, and abuse in the internal control system.

Guidance for state agencies recommends the responsibilities for billing, collecting, and recording revenues be separated among individuals. Also, NRS 353A.020 requires agencies to appropriately separate duties to safeguard the assets of the agency. Without separation of duties, fee revenue is susceptible to loss without being detected. When we discussed this issue with the Exchange, management indicated they are taking steps to resolve the problem, but were concerned over the limited number of staff available to perform these duties. As further guidance suggests, in the event staffing levels are not sufficient to separate all duties, compensating controls should be implemented and documented.

### **Receivables Not Always Collected Timely**

The Exchange did not always collect accounts receivable in a timely manner. Three of 10 dental carriers were repeatedly late in paying invoices from February through September 2015. The Exchange billed these three carriers over \$11,000 between April and August 2015. Although the Exchange billed monthly, staff did not realize these carriers had not made payments for 5 consecutive months. All three carriers' payments for their overdue invoices were deposited on September 1, 2015. However, the same three carriers were over 30 days past due for invoices due on September 1, 2015. In addition, QHP carriers did not always pay their invoices timely. Two of five QHP carriers were over 30 days late for invoices due on September 1, 2015. The two carriers paid the invoices totaling about \$375,000 in early October.

According to the Exchange, there was miscommunication between staff from February until August 2015 regarding the monitoring process for receivables. In addition, the Exchange's policies and procedures in this area have not been updated from the original Division of Internal Audits template language, which may have contributed to their overlooking past due payments. Current procedures do not indicate which position title will perform specific internal control responsibilities. If the agency does not adequately monitor accounts receivable, there is an increased risk not all payments will be collected.



## **Reconciliations Needed Over Cash Receipts**

The Exchange does not have a process in place to verify all payments collected were deposited. The payments received were not adequately documented and then periodically compared against deposits by someone independent of the revenue and deposit functions. From January through September 2015, 32 checks were deposited, totaling \$822,064. We identified 7 of 32 checks, totaling \$485,420, were not recorded on the Exchange's check log. However, the Exchange also records check information on a receipt log, separate from the check log. We identified one \$92,846 payment not recorded on either log.

According to the Exchange's procedures, the Accounts Manager is supposed to conduct a reconciliation of the cash receipts and check log to the bank deposit records and the budget status report at least monthly. This review is supposed to then be approved by the Finance and Research Officer. However, this reconciliation had not occurred. Without this control in place, management lacks assurance that all receipts have been deposited. Although there was no indication from our testing that funds were missing from deposits, there is a risk money could be lost or stolen and go undetected when a proper reconciliation of collections to deposits is not performed.

## **Accounting Policies and Procedures Need Updating**

The Exchange's policies and procedures lack sufficient detail regarding the revenue collection and accounts receivable processes. While the Exchange does have internal controls procedures relating to revenue collection and accounts receivable, they are outdated and, in certain areas, unchanged from the Division of Internal Audits control procedures template language. In addition, differences were identified between written procedures and actual processes we observed. For example, current procedures include duties to be performed by staff other than who actually perform those duties. The last update to the internal controls procedures occurred in May 2014, but significant changes to processes have occurred since that time. Most revenue collection problems identified during fieldwork stem from a lack of updated policies and procedures to guide accounting activities. This was compounded by turnover in several key positions during calendar year 2015.

NRS 353A.020 requires each agency to develop written procedures to carry out a system of internal accounting and administrative control. In addition, SAM 2418 requires agencies to review policies and procedures annually and update them as needed. The Exchange's current policy indicates internal control procedures will be reviewed annually for any needed changes. However, the Exchange did not review and update their written policies and procedures on an annual basis, or when significant changes occurred. These procedures are intended to help agencies check the accuracy and reliability of their accounting information, promote efficient operations, and encourage adherence to managerial policies. Written procedures are particularly valuable when turnover occurs in key positions and new employees need training on assigned duties.

### **Revenue Documentation Needs Safeguarding**

The Exchange did not adequately safeguard documents used to record payment information. The Exchange's check log, receipt log, and the budget tracking spreadsheet used to record receivables can be accessed by any employee on the Exchange's internal computer network. The risk of these documents being modified for fraudulent purposes increases with the number of people who have access to these spreadsheets. Management should design controls to limit user access to information through authorization control activities, such as restricting authorized users to the applications or functions related to their assigned responsibilities. Doing so also supports an appropriate separation of duties. Access to payment information documents was not restricted because the Exchange's policies and procedures do not address controls over safeguarding these documents.

### **Recommendations**

10. Revise policies and procedures related to the revenue collection process to ensure adequate separation of duties.
11. Implement controls to ensure all receipts are recorded in the check log, and the check log is reconciled to deposits by someone independent of the revenue recording and deposit functions.

12. Update policies and procedures to ensure the Exchange has an adequate system of internal control over revenue collection and accounts receivable.
13. Ensure access to spreadsheets used to record revenue and accounts receivable are limited to the staff needing access to them to complete their job duties.

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# Appendix A

## Audit Methodology

To gain an understanding of the Silver State Health Insurance Exchange (Exchange), we interviewed staff and reviewed statutes, regulations, and policies and procedures significant to the Exchange's operations. We also reviewed financial information, contracts and agreements, budgets, legislative committee minutes, Exchange Board minutes, and other information describing Exchange activities. Furthermore, we documented and assessed the adequacy of the Exchange's internal controls over contract management and revenue collection.

To determine whether financial and administrative controls over the contract monitoring process were adequate, we evaluated the contracts and agreements with all 10 navigator entities and the education and outreach subcontractor to identify potential areas for improvements. We verified whether contract calculations were correct, and we documented contract amounts, limits for number of navigators allowable during the duration of the contract, and the distribution of the navigators throughout the state.

To evaluate the appropriateness of amounts paid to the 10 navigator entities, we reviewed all 54 of the funding requests paid to those entities for services provided between March and October 2015. We verified that the reported hours on the funding requests agreed with the calculated amounts paid. When detailed timesheets were provided, we reviewed them to ensure the calculations were accurate, and that they were paid based on the reported number of hours worked. We analyzed the number of navigators working for each entity each month to determine the average number of hours worked per navigator. We also verified whether all 64 navigators employed by the 10 navigator entities were licensed as EEFs by the Division of Insurance (DOI) prior to being paid by the Exchange. We also reviewed the funding

requests to determine the number of navigators working in Northern and Southern Nevada.

To document the reported performance results of the nine navigator entities which perform outreach and enrollment, we reviewed all 46 outreach event reports and all 46 enrollment reports provided with the monthly funding requests for services performed between May and October 2015. Because the supporting documentation provided on the funding requests was insufficient for us to verify reported outreach and enrollment numbers, we requested further supporting information from the nine navigator entities through the Exchange. To analyze the additional supporting documentation provided, we compared each event for which the entities provided supporting information to their outreach activities reported on their funding requests. We then calculated the staff hours for reported outreach by multiplying the reported time spent at the event by the reported number of employees at each event. We compared the calculated amount of outreach hours to the amount of hours reported on the funding requests. When detailed timesheets were available, we verified whether navigators were working the dates and/or hours of the events. We also compared the number of enrollment authorization forms collected by the entities each month against the number of enrollments reported on their monthly enrollment reports.

To identify navigator performance monitoring improvement opportunities, we reviewed grant applications submitted by all nine navigator entities which perform outreach and enrollment to identify their proposed performance measures for both outreach and enrollment. We then compared the reported performance measures provided in the monthly funding requests to the adjusted performance measures based on awarded amounts to identify the percentage of proposed events and enrollments actually performed.

To analyze reported performance results of the subcontractor performing outreach and education services, through the contracted marketing firm, we reviewed all 26 event reports created by the subcontractor between June and October 2015.

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We calculated the staff hours by multiplying the reported time spent at each event by the reported number of employees at each event. We compared the calculated amounts to the amount of hours worked as reported on the invoice. To evaluate the appropriateness of amounts paid to the outreach subcontractor, we reviewed all five invoices paid to the subcontractor, through the marketing contractor, for services between June and October 2015.

To evaluate internal controls procedures over contract monitoring and revenue collection, we reviewed the internal controls procedures to determine whether procedures were up-to-date and to identify areas that needed further clarification. We also discussed policies and procedures and planned changes with Exchange staff.

To determine the adequacy of financial controls over revenue collection, we obtained all 45 member fee invoices issued to qualified health plan (QHP) and 67 member fee invoices issued to dental carriers from January through September 2015. We selected a random sample of 10 invoices to QHP carriers and 10 invoices to dental carriers to determine if the invoices were accurate and related enrollment adjustments were reasonable. For the 30 member fee invoice payments made via check, we traced the payment to the check log, cash receipts log, and the state accounting system. We also traced all the member fee revenue from the state accounting system to the check log to determine if all checks were recorded correctly. In addition, we determined if all member fee payments were received timely by comparing invoice due dates to invoice payment dates. We observed and documented the check deposit process and interviewed the assigned staff members in charge of check collection.

For our testing involving samples, we used non-statistical audit sampling, which was the most appropriate and cost-effective method for concluding on our audit objective. Based on our professional judgment, review of authoritative sampling guidance, and careful consideration of underlying statistical concepts, we believe that non-statistical sampling provided sufficient,

appropriate audit evidence to support the conclusions in our report. We have not projected the errors noted in our samples to the population because our samples included randomly and judgmentally selected items. Judgmental selections were made based on analytical review of data and factors such as changes in program dynamics due to differences between enrollment and non-enrollment periods. Since a portion of our samples were based on these factors, we do not think a projection of the errors would be appropriate.

Our audit work was conducted from May 2015 to January 2016. 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.

In accordance with NRS 218G.230, we furnished a copy of our preliminary report to the Executive Director of the Silver State Health Insurance Exchange. On April 18, 2016, we met with agency officials to discuss the results of the audit and requested a written response to the preliminary report. That response is contained in Appendix B which begins on page 35.


Contributors to this report included:

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# Appendix B

## Response From the Silver State Health Insurance Exchange



**Brian Sandoval**  
*Governor*

**Florence Jameson, MD**  
*Chairwoman*

**Bruce Gilbert**  
*Executive Director*

**Silver State Health Insurance Exchange**

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April 28, 2016

Rocky Cooper, CPA  
Legislative Counsel Bureau  
Legislative Building  
401 S. Carson Street  
Carson City, Nevada 89701

Re: 2016 Silver State Health Insurance Exchange Performance Audit

Dear Mr. Cooper:

Attached please find the response of the Silver State Health Insurance Exchange to the recent Performance Audit completed by your office.

As we have discussed, the unique nature of a state-based marketplace and the lack of generally accepted standards and benchmarks to be applied to our activities makes a performance audit difficult. Bona fide and good faith differences of opinion are to be expected, particularly when considering marketplace marketing and outreach activities. To that end, I would offer the following comments for your consideration:

1. It is important to recognize that the Exchange connects with hard-to-reach, underserved populations through targeted outreach efforts and partnerships with trusted community-based organizations. We utilize this channel as those partners have specific and proven expertise in determining how best to reach our uninsured populations and help even those with low literacy levels understand the value and availability of health insurance coverage and premium subsidies.

While opinions may vary over some of the particulars of the program, it is irrefutable that our outreach efforts have been an unqualified success, generating record enrollment growth in Exchange-certified health plans each of the last two years. Part of that success is attributable to the breadth of our outreach activities; we do not and have not limited our attendance to health-related events. The Nevada Health Link brand has been represented at small business trade shows, ethnic festivals, college athletic games, and more.

This is consistent with the efforts of marketplaces in other states; as noted in a recent Kaiser Family Foundation study, our sister states have “stressed the importance of conducting a broad range of outreach and enrollment initiatives at the local level and identified a variety of avenues where they successfully reached consumers, including churches, college campuses, beauty and barber shops, local grocery or community stores, libraries, extension centers, small businesses, and even people’s homes.” See <http://kff.org/report-section/what-worked-and-whats-next-strategies-in-four-states-leading-aca-enrollment-efforts-lessons-learned/>.



2. We are particularly disappointed that the auditor chose to fault navigator attendance at events primarily aimed at women who are self-employed or operate small businesses. The failure to recognize the importance of women's health issues and understand the need for outreach at these events betrays a limited knowledge of the Exchange and our customer base. The majority of our enrollees (54%) are female and between the ages of 26 to 54. Identifying and attending events which can be expected to draw this demographic is both appropriate and consistent with our outreach strategy.
3. Because of the concern expressed with respect to the depth of the Exchange's management and oversight of outreach and consumer education efforts, our staff reached out to CMS as well as other state-based exchanges and requested information on the nature and extent of the reporting required to be provided by their grantees.

CMS has shared information on its administration of the navigator program in its various states, including the forms the navigator entities are required to use to describe their activities and additional verification processes. We have received similar information from Oregon and New Mexico. Neither the federal government nor either of the other states responding requires their grantees to provide the detailed accounting of time as recommended by the auditor. In speaking with federal officials and the staff of other states, it is clear that they believe the administrative burden imposed by such requirements would significantly detract from time available to support core operational efforts.

Moreover, we believe that the auditor has overlooked the fact that – despite the contractual relationship – an exchange could unintentionally be deemed the de facto employer of individual navigators based upon the degree of control imposed by such a process, and create significant unanticipated risk for the agency. A similar concern has been raised by one of our longstanding navigator entities, asking that the Exchange be mindful that navigators are generally independent contractors and recognize that establishing set assignments, set times, set hours, and micro-managing activities could jeopardize that “independent contractor” status. A copy of that communication is attached for your reference.

We will be discussing this point with our Deputy Attorney General as we move forward, taking steps to assure that in our efforts to implement recommended actions we do not create any potential liabilities for the Exchange or our contracted navigator entities. Our intent is to review the navigator/outreach reporting protocols and forms used by the FFM, Oregon and New Mexico and use them to build templates to better manage our programs here.

The Exchange recognizes and appreciates the need to appropriately manage our revenues and expenses, and has already begun to implement operational changes to improve those processes. However, we also feel strongly that it is management's responsibility to direct the agency and develop the strategies to advance its mission. As a small agency with limited staff and resources, our primary focus cannot be second-guessing our navigators as to the events they believe they should attend, nor to spend hours auditing grantee timesheets. Our obligation is to assure that our agency works effectively and transparently to reduce the uninsured population of Nevada, and we believe that is precisely what we are doing and have done.

Thank you for the opportunity to respond to the Performance Audit findings. Please let me know if you have any questions.

Sincerely,



Bruce Gilbert  
Executive Director

**Silver State Health Insurance Exchange's Response to Audit Recommendations**

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- 1. Require more detailed accounting of time by specific activity type, events, enrollments, and other activities from navigator entities to provide a better understanding of services rendered to support payment requests.**

The Exchange will strengthen policies and procedure related to payment requests. We are in the process of reviewing the policies and procedures used by other agencies charged with navigator oversight and the requirements with respect to specific documentation related to activity type, events, enrollments and other related activities to support payments for services rendered.

- 2. Develop policies and procedures to perform thorough reviews of navigator entity funding requests to ensure information reported is reliable and payments are appropriate under contract terms.**

The Exchange will strengthen policies and procedure related to navigator entity funding requests. We are in the process of reviewing the policies and procedures used by other agencies charged with navigator oversight and the requirements with respect to ensuring information reported is reliable and payments are appropriate under contract terms.

- 3. Require the marketing contractor to provide monthly reports on the services performed by the outreach and education subcontractor including an accounting of time by specific activity to support billing amounts.**

The Exchange currently requires the marketing contractor to provide monthly reports on the service performed by the outreach and education subcontractor. We are in the process of reviewing the policies and procedures used by other agencies charged with outreach and education oversight and the requirements with respect to the level of detail required for time accounting to support billing amounts.

- 4. Develop policies and procedures to evaluate services performed by the outreach and education subcontractor to ensure funds are paid for actual services rendered on behalf of the Exchange.**

The Exchange will strengthen existing policies and procedures to ensure that all contractors and subcontractors are paid for services rendered on behalf of the Exchange. We are in the process of reviewing the policies and procedures used by other agencies charged with outreach and education oversight and the requirements with respect to the level of detail required to ensure funds are paid for services rendered on behalf of the Exchange.

**5. Establish clearly defined performance measures for navigator entities' outreach activities and enrollments, and monitor monthly progress towards those measures.**

The Exchange will strengthen existing performance measures for Navigator outreach and enrollment activities, including the current practice of monthly monitoring at the time that funding requests are submitted. We are in the process of reviewing the policies and procedures used by other agencies charged with navigator oversight and associated measurements.

**6. Establish clearly defined standards for navigator entities for deliverables including timesheets, and supporting documentation for reported outreach and enrollment numbers.**

The Exchange will strengthen existing deliverables required from navigator entities. We are in the process of reviewing the policies and procedures used by other agencies charged with navigator oversight and the requirements with respect to specific documentation related to reported outreach and enrollment numbers.

**7. Formalize a written policy regarding the payment of unlicensed navigators working for navigator entities.**

The Exchange will formalize a policy regarding the payment of navigators pending licensure who are working for navigator entities.

**8. Establish requirements for navigator entities to mitigate the risks associated with unlicensed navigators handling sensitive information while representing the Exchange.**

The Exchange has developed requirements for navigators pending licensure related to the handling of sensitive information in order to mitigate risk for the Exchange.

**9. Enhance existing strategy to improve navigator representation in Northern Nevada.**

The Exchange has enhanced strategic efforts to bolster navigator representation in Northern and Rural Nevada.

**10. Revise policies and procedures related to the revenue collection process to ensure adequate separation of duties.**

The Exchange has collaborated with the budget division and revised policy and procedure related to revenue collection to ensure appropriate separation of duties.

- 11. Implement controls to ensure all receipts are recorded in the check log, and the check log is reconciled to deposits by someone independent of the revenue recording and deposit functions.**

The Exchange has implemented and strengthened internal controls to ensure that all receipts are recorded in the check log and that the check log is reconciled to deposits by a staff member independent of the revenue recording and deposit functions.

- 12. Update policies and procedures to ensure the Exchange has an adequate system of internal control over revenue collection and accounts receivable.**

The Exchange has updated and strengthened policy and procedures to ensure that internal controls over revenue collection and accounts receivable are adequate and appropriate.

- 13. Ensure access to spreadsheets used to record revenue and accounts receivable are limited to the staff needing access to them in complete their job duties.**

The Exchange has limited access to spreadsheets used to record revenue and accounts receivable to only those individuals who require access as result of their job duties.

## Silver State Health Insurance Exchange's Response to Audit Recommendations

<u>Recommendations</u>	<u>Accepted</u>	<u>Rejected</u>
1. Require more detailed accounting of time by specific activity type, events, enrollments, and other activities from navigator entities to provide a better understanding of services rendered to support payment requests .....	<u>X</u>	<u>          </u>
2. Develop policies and procedures to perform thorough reviews of navigator entity funding requests to ensure information reported is reliable and payments are appropriate under contract terms.....	<u>X</u>	<u>          </u>
3. Require the marketing contractor to provide monthly reports on the services performed by the outreach and education subcontractor including an accounting of time by specific activity to support billing amounts.....	<u>X</u>	<u>          </u>
4. Develop policies and procedures to evaluate services performed by the outreach and education subcontractor to ensure funds are paid for actual services rendered on behalf of the Exchange .....	<u>X</u>	<u>          </u>
5. Establish clearly defined performance measures for navigator entities' outreach activities and enrollments, and monitor monthly progress towards those measures.....	<u>X</u>	<u>          </u>
6. Establish clearly defined standards for navigator entities for deliverables including timesheets, and supporting documentation for reported outreach and enrollment numbers .....	<u>X</u>	<u>          </u>
7. Formalize a written policy regarding the payment of unlicensed navigators working for navigator entities.....	<u>X</u>	<u>          </u>
8. Establish requirements for navigator entities to mitigate the risks associated with unlicensed navigators handling sensitive information while representing the Exchange.....	<u>X</u>	<u>          </u>
9. Enhance existing strategy to improve navigator representation in Northern Nevada.....	<u>X</u>	<u>          </u>
10. Revise policies and procedures related to the revenue collection process to ensure adequate separation of duties.....	<u>X</u>	<u>          </u>
11. Implement controls to ensure all receipts are recorded in the check log, and the check log is reconciled to deposits by someone independent of the revenue recording and deposit functions.....	<u>X</u>	<u>          </u>

## Silver State Health Insurance Exchange's Response to Audit Recommendations (continued)

<u>Recommendations</u>	<u>Accepted</u>	<u>Rejected</u>
12. Update policies and procedures to ensure the Exchange has an adequate system of internal control over revenue collection and accounts receivable .....	<u>X</u>	<u>          </u>
13. Ensure access to spreadsheets used to record revenue and accounts receivable are limited to the staff needing access to them to complete their job duties .....	<u>X</u>	<u>          </u>
TOTALS	<u>13</u>	<u>          </u>

# Appendix C

## Auditor's Comments on Agency Response

The Exchange, in its response, included statements we believe misrepresent our findings and, in one instance, inaccurately represent the Audit Division's objectivity. The following identifies sections of the report where the Exchange has taken exception to our position. We have provided our comments on some of the issues mentioned in the Exchange's response to inform the reader of our position and demonstrate why we believe our findings, conclusions, and recommendations, as stated in the report, are accurate and appropriate.

1. The Exchange, in its response, suggested we faulted navigator attendance of events primarily aimed at women who are self-employed or operate small businesses and failed to recognize the importance of women's health issues and the need to perform outreach services to these groups. (see page 36)

### Legislative Auditor's Comments

From these comments, we assume the Exchange is referring to page 11 of the report, where we address the need for the Exchange to review the events attended by navigators to assess whether events attended are the most effective use of time and resources. We object to the assertion that we fail to recognize the importance of women's health issues. The report needs to be evaluated in its entirety, not focusing on a specific line to draw conclusions about our rationale. As stated on page 11 in our report, we identified events attended by a specific navigator which included a lingerie convention, a belly dance festival, and a cocktail party fundraiser, as examples of events that may not be the most effective use of funds. We did not state these events should not have been attended, but contrasted those events to other events attended by navigator entities such as community events, health fairs, and ethnic festivals. We included, as an example, the Susan G. Komen Race for the Cure which is an event focused on women's health issues.

Monitoring the events attended by navigators helps ensure the entities are selecting the most advantageous events that best address targeted populations. The navigator entity that attended the lingerie convention, belly dance festival, and cocktail party described its activities in its event report to the Exchange, during the month of those events, as "Dedicated outreach efforts, attending network functions, conventions, face-to-face education and distribution of informational materials." It was not until we requested further information on attended events that the Exchange was informed of the specific events attended by the navigator entity. As we stated in the report on page 11, without adequate details into what events are being attended, the Exchange does not have sufficient information to take corrective actions, if needed.

2. The Exchange indicated in its response it was concerned that our recommendations to improve its monitoring of navigator entities could result in the Exchange being unintentionally deemed the de facto employer of the navigators that are formally engaged as independent contractors. (see page 36)



### Legislative Auditor's Comments

Although the Exchange accepted all recommendations, we have concerns with the suggestion in its response that our recommendations to increase monitoring activities would jeopardize the independent contractor status of the navigator entities. We disagree with the Exchange's assumption. As noted on page 8, we found the Exchange's review processes were not sufficiently detailed to determine whether the navigator entities' outreach and event reports supported the hours reportedly worked. Documentation for reported hours supported only about 3,000 of the 17,900 (17%) staff hours paid. As a result, a more detailed accounting of time is needed for the Exchange to monitor and verify that the entities are providing services on behalf of the Exchange. The recommendations do not suggest the Exchange assumes the role of employer; rather, we recommend enhancements to the contract monitoring processes. Additionally, these monitoring requirements are already included in the Exchange's contractual agreements with the navigator entities. For example:

- The Navigator Entity Sub-grant Instructions and Requirements require documentation to verify the navigators who worked during the reimbursement timeframes and the number of hours worked by each navigator, verify that each navigator was performing duties on behalf of the Exchange, and to ensure that if the navigator worked less than full time, the reimbursement would be adjusted accordingly.
- The Request for Application for navigator entities indicates the navigator entities will be closely monitored and states they must submit performance reports to the Exchange documenting their progress towards meeting agreed upon deliverables and established program outcomes according to agreed-upon timelines.

Our recommendations include improving the Exchange's review process by utilizing these existing requirements to ensure hours worked can be verified, claimed hours were worked in behalf of the Exchange, and payments are adjusted according to actual hours worked. Based on these requirements, we feel our recommendations are not overreaching and are consistent with contract monitoring processes.