

**Audit of the Department of
Human Services' KOLEA System:
\$155 Million KOLEA Project Does
Not Achieve All ACA Goals**

Report No. 15-20
December 2015

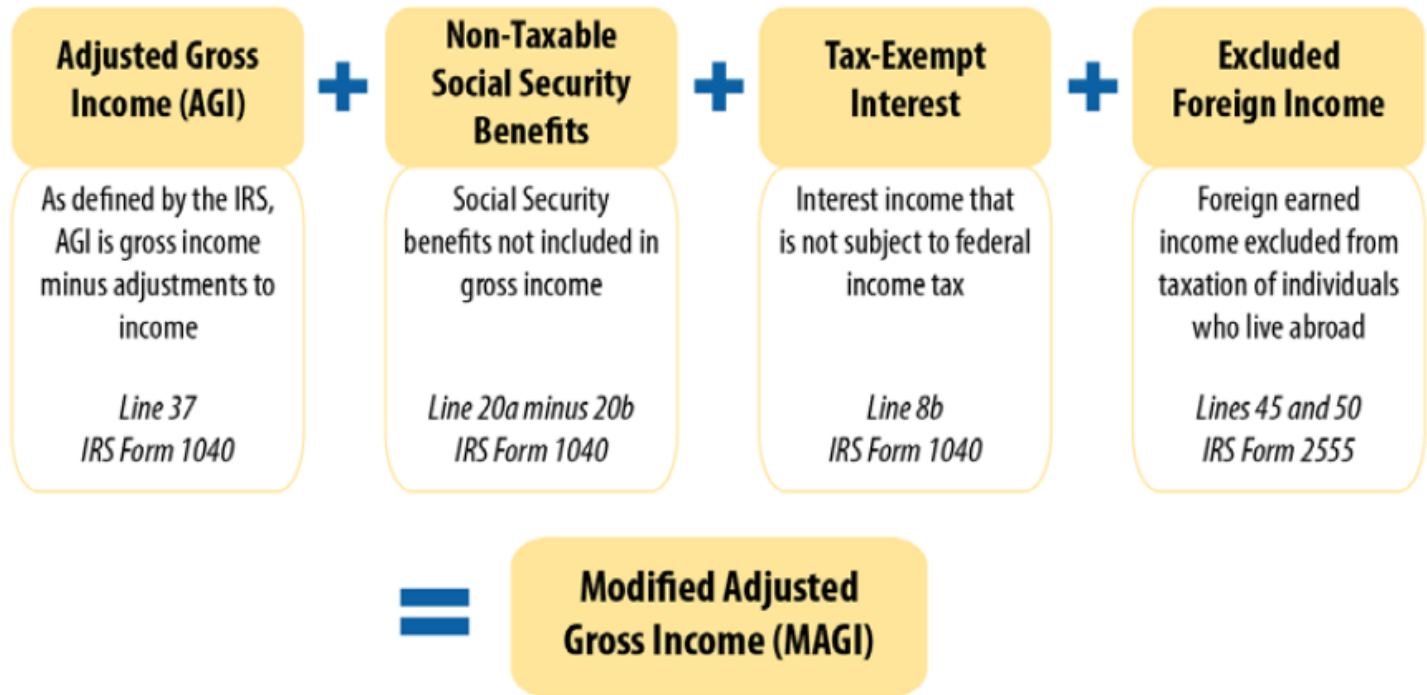
Background

- **Audit impetus** – Act 119, Sect. 131 (SLH 2015)
- **KOLEA** – Kauhale Online Eligibility Assistance System
- **KOLEA inception** – system designed and built in **9** months to meet timeline imposed by federal *2010 Patient Protection and Affordable Care Act* (ACA)
- **KOLEA implementation** – Med-QUEST Division launched KOLEA on 10/1/13, allowing individuals to apply for Medicaid benefits online

Affordable Care Act

- Expanded Medicaid to Americans <65 y.o. whose family income \leq 133% of federal poverty level
- Required states to use **modified adjusted gross income** (MAGI) for most eligibility determinations
- “No wrong door” – required coordinated and simplified application process between Medicaid and states’ health insurance exchanges (HIX) to allow consumers to apply for coverage with one application

Modified Adjusted Gross Income (MAGI)



Affordable Care Act

A primary goal of the ACA is to:

- create a simple, real-time eligibility and enrollment process
- that uses electronic data
- to ease the paperwork burden on applicants and state agencies
- while expediting eligibility determinations

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Statewide Medicaid enrollment increased by 11% after Medicaid expansion (Oct. 2013)

Island	June 2013	June 2014	June 2015
O'ahu	179,227	199,062	201,668
Hawai'i	62,145	69,081	69,975
Maui	30,951	34,896	36,597
Kaua'i	16,072	18,255	19,661
Moloka'i	3,305	3,462	3,521
Lāna'i	723	754	775
Statewide	292,423	325,510	332,197

KOLEA Timeline

- **April 2011** – **90/10** funding match offered by federal CMS to upgrade or enhance Medicaid IT systems to implement ACA
 - **75/25** funding match for maintenance and operations
 - Both were previously **50/50** matches
- **March 2012** – DHS contracts with Public Consulting Group (PCG) to provide planning services for KOLEA

KOLEA Timeline

- **January 2013** – DHS executes \$89.9M design, development and installation (DDI) contract with KPMG, LLP
 - 9 modifications, raising total contract to \$146.5M
- **October 1, 2013** – KOLEA is launched

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Summary of KPMG KOLEA Contract

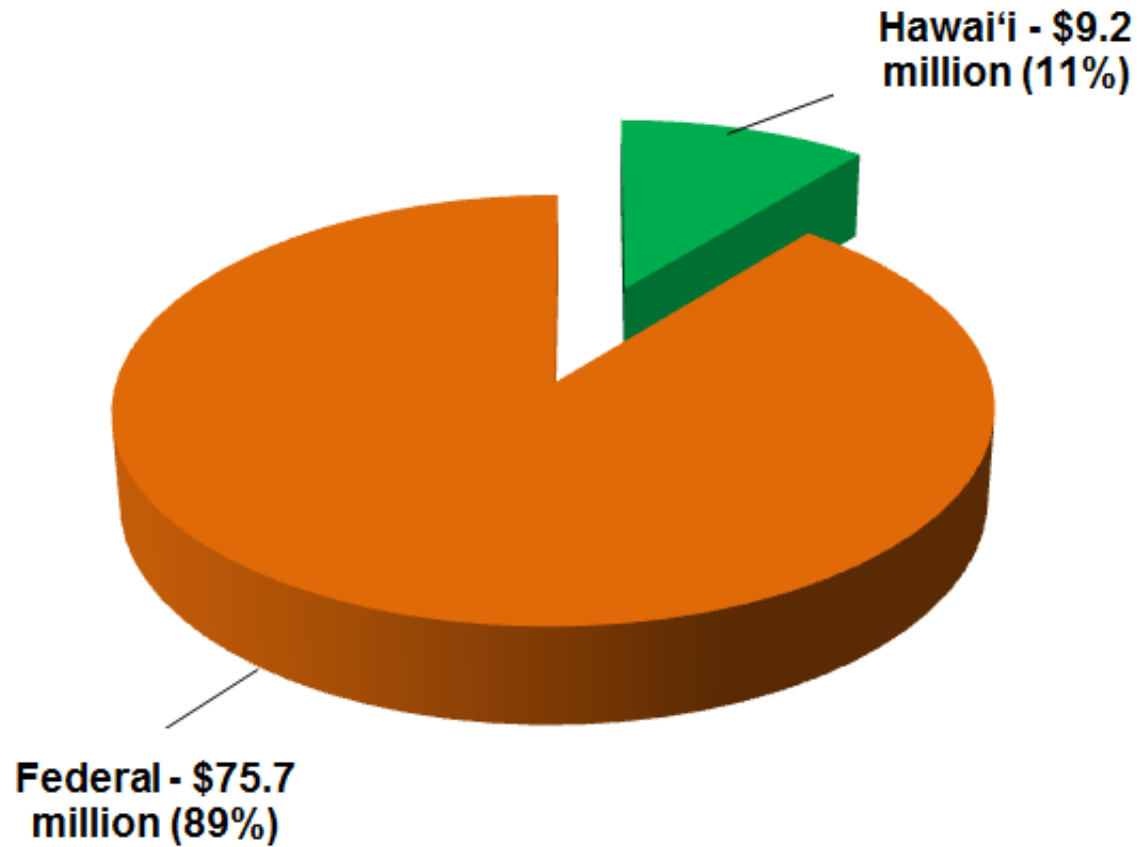
Date	Item	Description	Amount
1/11/2013	DHS-13-MQD-790	Integrated eligibility system	\$ 89,941,995
4/11/2013	Supplement 1	Administrative Modifications	—
6/28/2013	Supplement 2	State Data Hub for OIMT	\$ 8,592,750
6/28/2013	Supplement 3	Study to integrate KOLEA and HHC	\$ 1,000,000
7/12/2013	Supplement 4	B-Prime Transition Changes	\$ 1,107,400
12/4/2013	Supplement 5	Modify State Data Hub	\$ (940,710)
12/17/2013	Supplement 6	Enterprise Content Management	\$ 14,721,945
5/15/2014	Supplement 7	Customer Relationship Manager	\$ 30,377,288
9/5/2014	Supplement 8	HHC initial eligibility determinations	\$ 1,905,000
12/8/2014	Supplement 9	DHS initial eligibility determinations	\$ (210,000)
		Total Award	\$ 146,495,668

KOLEA Expenditures

- HI spent nearly \$85M for KOLEA (as of Sept. 30, 2014)

	Federal	State	Total
Design, development, and installation (90/10 funding)	\$72,190,488	\$8,021,165	\$80,211,653
Maintenance and operations (75/25 funding)	<u>3,553,331</u>	<u>1,184,443</u>	<u>4,737,774</u>
Total KOLEA expenditures	<u>\$75,743,819</u>	<u>\$9,205,608</u>	<u>\$84,949,427</u>

Federal/State Split for KOLEA
(as of Sept. 30, 2014)



Audit Objectives

1. Assess whether DHS adequately managed its resources to effectively implement KOLEA.
2. Assess the adequacy of KOLEA in supporting ACA's goals and meeting public welfare needs.
3. Make recommendations as appropriate.

Scope and Methodology

- **Focus:** Planning and implementation of the KOLEA system
- **Audit period:** FY2011—FY2013
- **Audit performed:** May 2015—October 2015

**\$155 Million KOLEA Project
Does Not Achieve All ACA
Goals**

Summary of Findings

1. Med-QUEST did not properly plan for or implement ACA. DHS unable to achieve all ACA's goals—to create a simple, real-time eligibility and enrollment process using electronic data to ease paperwork burden on applicants and states while expediting eligibility determinations.
2. The enterprise platform is not integrated with DHS' other health and human services programs (e.g., SNAP and TANF). Therefore it does not yet support ACA's goal of facilitating enrollment in programs other than Medicaid.

Finding 1

Ineffective leadership and oversight by MQD led to botched implementation of ACA

- Former MQD administrator's delayed planning for ACA changes exacerbated time constraints
 - March 23, 2010 – ACA enacted
 - April 2011 – Enhanced 90/10 funding announced by CMS
 - December 2011 – DHS issues first RFP for consulting services

Finding 1

Policy office allowed to shirk responsibility to ensure policy recommendations, eligibility and enrollment procedures were made ahead of ACA changes

- MQD administrator did not hold policy office accountable for establishing new policies, procedures, rules for ACA
- Discrepancies between KOLEA Verification Plan and HAR

**Discrepancies Between KOLEA Verification Plan
and DHS Rules**

Hawai'i Administrative Rule	DHS Verification Plan
Section 17.1714.1-39 (1) requires verification of financial information from sources that include:	
<ul style="list-style-type: none">• Internal Revenue Service	<ul style="list-style-type: none">• DHS does not use IRS data because the data is old and the security requirements are too onerous
<ul style="list-style-type: none">• State Administered Supplementary Payment Program	<ul style="list-style-type: none">• Electronic file match currently does not exist

**Discrepancies Between KOLEA Verification Plan
and DHS Rules (cont'd)**

Hawai'i Administrative Rule	DHS Verification Plan
Section 17.1714.1-39 (2) requires use of information related to eligibility or enrollment from:	
<ul style="list-style-type: none">• Supplemental Nutrition Assistance Program	<ul style="list-style-type: none">• Electronic file match currently does not exist
<ul style="list-style-type: none">• Temporary Assistance for Needy Families (Title IV-A of Social Security Act)	<ul style="list-style-type: none">• Electronic file match currently does not exist

Finding 1

Training office failed to ensure eligibility workers properly trained on new ACA requirements

- MQD administrator did not ensure training office provided adequate training to eligibility workers
- Eligibility workers lack sufficient understanding of MAGI-based eligibility requirements to make correct eligibility decisions
- Supervisors spend more time training staff and answering questions than attending to management duties

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Differences in Counting Income Sources Between Former Medicaid Rules and MAGI Medicaid Rules

Income Source	Former Medicaid Rules	MAGI Medicaid Rules
Self-employment income	Counted with deductions for some, but not all, business expenses	Counted with deductions for most expenses, depreciation, and business losses
Salary deferrals (flexible spending, cafeteria, and 401(k) plans)	Counted	Not counted
Child support received	Counted	Not counted
Alimony paid	Not deducted from income	Deducted from income
Veterans' benefits	Counted	Not counted
Workers' compensation	Counted	Not counted
Gifts and inheritances	Counted as lump sum income in month received	Not counted
TANF & SSI	Counted	Not counted

Finding 1

MQD inappropriately relied on KOLEA project team to implement ACA's eligibility and enrollment provisions

- Eligibility rules and policy recommendations primarily relied on one team member's interpretation of the 900-page ACA
- Project team designed KOLEA's eligibility and enrollment process ahead of management's assurance that it would comply with ACA

Finding 1

Numerous defects may negate KOLEA's advancements

- KOLEA does not perform electronic data matching to verify applicants' self-reported income as envisioned by ACA
- MQD does not measure efficiency of its eligibility process, so cannot correct problems
- CMS pilot program offers glimpse of scope of eligibility error rates

Finding 1

Eligibility workers find KOLEA difficult to use

- Not user-friendly, difficult to navigate
- Checking and editing data is difficult and time-consuming
- A branch administrator said one of biggest problems is eligibility workers do not understand and properly use KOLEA

CMS pilot program offers glimpse of scope of eligibility error rates

Hawai'i Medicaid and CHIP Eligibility Determination Error Rates

Pilot Period	Determination Cases	Determination Errors	Determination Error Rate	Renewal Cases	Renewal Errors	Renewal Error Rate	Total Cases	Total Errors	Total Error Rate
October 2013 to March 2014	220	4	1.8%	0	0	0	220	4	1.8%
April 2014 to September 2014	62	1	1.6%	167	9	5.4%	229	10	4.4%

Finding 2:

Enterprise System Does Not Yet Support Human Services Programs, but Integration Is in Progress

Finding 2

Integration of health insurance with human services programs is critical to helping Hawai'i's needy

- ACA requires states to facilitate enrollment in health and human services programs
- Time constraints led DHS to prioritize Medicaid in building KOLEA and delay integrating human services program
- Extension of enhanced federal funding buys DHS time

Finding 2

Integration of SNAP and TANF programs are underway, but much work remains

- DHS must overcome data-sharing challenges among multiple divisions
- DHS may not meet deadline for federal funding opportunities

Recommendations

The director of human services should:

- Lead future IT change as head of the department
- Address Medicaid income verification issues to increase likelihood that HI's neediest are receiving all their benefits
- Ensure MQD establishes an interface with the IRS to check unearned income or ensure the HAR is revised to remove this requirement

Recommendations

The MQD administrator should:

- Ensure KOLEA project responsibilities are clearly defined
- Facilitate efforts to improve MQD's eligibility and enrollment processes
- Ensure the Policy and Program Development Office performs its duties and responsibilities

Recommendations

The MQD administrator should: (cont'd)

- Address KOLEA functionality and usability issues
- Ensure the training office works with policy office to provide training to eligibility workers

Our Follow-Up Activities

2016 Annual Report (Spring 2017)

- Agency actions taken on our audit recommendations (self-reported)

Report on Implementation of Auditor's 2015 Recommendations (Spring 2018)

- Status of each recommendation agencies have not implemented