



Office of the Auditor  
465 S. King Street  
Rm. 500  
Honolulu, HI 96813  
Ph. (808) 587-0800

Jan K. Yamane  
Acting State Auditor  
State of Hawai'i

**Hawai'i enrolled only  
14.8 percent of its  
expected 58,000  
individuals between  
October 1, 2013, and  
April 19, 2014, ranking  
it 46th in the nation.**

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# Audit of the Hawai'i Health Connector

Report No. 15-01, January 2015

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## *Inadequate planning and improper procurement led to an unsustainable Health Connector*

### **Board of Directors' inadequate planning led to an unsustainable health exchange**

The Hawai'i Health Connector Board of Directors and management could not agree on what Hawai'i's health insurance exchange could be or should be. The Connector board never made that fundamental decision but continued its work without a finalized strategic plan. As a result, the Connector is unsustainable due to high operating costs and Hawai'i's unique market of uninsured—only 8 percent of the population, about 100,000 residents. The interim executive director concluded that even with substantial reductions to the estimated \$15 million annual operating budget, the Connector would not be sustainable. It would have to dramatically increase fees on participating exchange plans or the State would need to assess a fee across the market to preserve services.

In addition, the Connector did not have IT staff to manage the project's development or monitor contracts, relying on vendors to self-report their progress. In addition, the board's ability to monitor its massive IT system's development progress was impaired by an uncooperative executive director who withheld information. Throughout the website development process, the board was largely unaware of the Connector's myriad problems.

### **Connector did not properly procure and administer its contracts and monitor costs, putting federal grants at risk**

The Connector received \$204.4 million in federal grants to support the planning and establishment of Hawai'i's state-based health insurance exchange. We found the Connector did not properly procure or administer its contracts and circumvented its own procurement policies and procedures when hiring consultants. Contracts were awarded without following proper procedures to ensure competitive pricing and procurement documentation was disorganized or missing from most contract files. Many of the Connector's IT consultant contracts were amended numerous times and costs ballooned as the Connector continued to rely on their services.

The Connector receives almost all its funds from grants awarded by the federal government. Strict federal regulations govern the use of these moneys. We noted numerous questionable travel and entertainment costs as well as unsupported severance pay. These questionable costs may be disallowed by the funding agency, and noncompliance with federal regulations may result in repayment of amounts or suspension and termination of a federal grant.

### **Agency response**

The Connector suggested minor technical changes to our report but generally agreed with our findings and recommendations.