

**Audit Finding Status (KCE and OSA)
As of April 15, 2016**

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| KC&E | Financial Statement & A-133 Single Audit | 2015-001 | The Exchange failed to apply the proper accounting treatment to items, in accordance with generally accepted accounting principles, and also failed to recognize items in the proper accounting period. Furthermore, the Exchange did not perform proper reconciliations of activity related to premiums collected on behalf of carriers and the related fees collected by the Exchange | Consideration should be given to new activity and accounting transactions, as to the proper accounting treatment that should be applied, in accordance with generally accepted accounting principles. Final, signed contracts and other supporting documentation should be obtained in a timely manner, prior to incurring cost, in order to determine the proper accounting treatment of costs. Also, accounting should review costs to determine that they are recognized in the appropriate accounting period. Timely reconciliations should also be performed of activity related to premiums collected on behalf of carriers and the related fees collected by the Exchange. Finally, the financial statements should be reviewed thoroughly by management to determine proper inclusion and treatment of all activity. | The financial management team has implemented new monthly financial reporting processes where more scrutiny is being placed in analyzing period over period variances, as well as budget to actual variances. In addition, the Executive Management Team have developed and incorporated new policies and procedures for key functional areas related to contract management and procurement. These core functional changes will significantly improve internal control over the financial reporting process. Key improvements include cross departmental review & authorization for all contract requests, prior to contract approval and execution. Also, preauthorization for any staff request is now mandated through a "Purchase Request Form" and process. The PRF process increases the scrutiny placed on proper expense coding by the accounting department. Additionally, communications have been enhanced with the vendor responsible for carrier fee processing to assure proper accounting of the related receivables and cash accounts. | |
| KC&E | Financial Statement & A-133 Single Audit | 2015-002 | Controls were not in place to identify unallowable costs in a timely manner. | Proper controls should be implemented to allow for identification of unallowable costs in a timely manner. Employees with procurement responsibility should be adequately trained and able to identify unallowable costs under the federal program. Furthermore, the Exchange should discuss with the federal agency and document whether funds overdrawn on the grant should be returned or whether the Exchange can continue to spend down the funds. The Exchange should also consider filing amended reports. | The majority of expenses for this finding relate to prepayments made for software and maintenance support services identified in the prior year's audit. These expenses are not allowed for federal reimbursement after December 2014, as they are considered routine maintenance and operation activities. Starting in January 2015, grant eligible expenses must relate to "establishment" related activities. The Exchange Staff was not made aware of the new federal eligibility guidelines until after December 2014, at which point, the Exchange Staff reviewed and confirmed these specific expenses as ineligible. Also, based upon this review, the Exchange Staff considered it necessary to review other material grant expenses during the fiscal year to ensure compliance with the new federal guidelines, and subsequently found additional expenses that would not meet the federal eligibility requirements, and were appropriately corrected. The Exchange filed and was granted a no cost extension of the federal grant to provide additional time to assure compliance with allowable expense requirements. The Federal Financial Reports (FFR) properly reflected the majority of all expense "timing" adjustments in its December 2015 filing, which were a direct result of the auditors prior year findings and the additional management grant expense reviews. | As of the audit report date all overdrawn funds had been spent on allowable costs so no returning of unused funds was needed. |
| KC&E | Financial Statement & A-133 Single Audit | 2015-003 | Controls were not in place to properly identify the unallowable costs. | Employees with procurement responsibility should be adequately trained and able to identify unallowable costs under the federal program. | The Exchange has implemented new procurement procedures which will aid in the determination of grant eligible expenses within the accounts payable cycle. During the accounts payable processing cycle, invoice and contract documentation will be reviewed against applicable grant guidelines as published within the OMB Circulars to confirm eligibility. Also, Exchange Management noted these contracts were subject to a maximum media buy threshold requirement, in-order to not exceed media purchases in the term specified, as well as, the applicable fees. The applicable fees within this finding were corrected as they were confirmed to be not eligible under grant eligibility guidelines. | |
| KC&E | Financial Statement & A-133 Single Audit | 2015-004 | The Exchange has not implemented internal control procedures that require adequate review of subrecipient audits. Furthermore, the Exchange has not implemented policies which properly identify federal awards to subrecipients. | The Exchange should establish internal control procedures that ensure subrecipient audits are properly reviewed to ensure compliance with OMB Circular A-133. Also, the Exchange should implement procedures that allow for proper identification of federal award amounts to subrecipients and should consider specifically identifying these amounts within subaward agreements | The subrecipients in question did comply with our requirement of providing the Exchange a copy of their A-133 audit report for our review. Subrecipient contracts executed by the Exchange dictated that subrecipient's should request of the Exchange their allocable portion of funding, as determined by the Exchange for their applicable A-133 Audit. The Exchange did have required written policy in place to monitor subrecipients for other applicable areas of oversight, but did not formalize this specific finding in the policy. The Exchange is not expecting to utilize federal grant sources to fund subrecipients in fiscal year 2016 and beyond. | Subrecipient - Assistance Network policies are being reviewed and updated |

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| KC&E | Financial Statement & A-133 Single Audit | 2015-005 | The Exchange failed to accurately identify reporting requirements | The Exchange should revise the FFATA report previously issued to reflect accurate amounts. Additionally, the Exchange should implement control procedures to ensure that reporting requirements are met timely and accurately in the future. | The Exchange will update the FFATA Report with the applicable subrecipient award amounts. Also, all reports and reporting deadlines have been formalized into the new Finance Closing Calendar, which lists all key deadlines and processes to perform on an annual and monthly basis. | |
| KC&E | Financial Statement & A-133 Single Audit | 2015-006 | The Exchange failed to properly document the procurement process for the contracts and also failed to obtain proper Board approval for one of the contracts. | The Exchange should implement proper procedures that allow for thorough documentation of the procurement process, in accordance with OMB Circular A-110. Furthermore, the Exchange should adhere to its policy, requiring approval by the Board for any contract in excess of \$150,000. | As noted within management's response within finding number 2015-001, the Exchange has developed and incorporated new policies and procedures for key functional areas related to contract management and procurement. These core functional changes will significantly improve internal control over the financial reporting process. Key improvements include cross departmental review & authorization for all contract requests, prior to contract approval and execution. Under the new procurement process, the Board of Directors will be engaged earlier in the procurement process, for applicable contracts meeting the financial threshold(s). | |
| KC&E | Financial Statement & A-133 Single Audit | 2014-001 | Our audit resulted in three significant audit adjustments, which indicates an opportunity for improved internal control over financial statement reporting. | Consideration should be given to new activity and accounting transactions, as to the proper accounting treatment that should be applied, in accordance with generally accepted accounting principles. Furthermore, accounting should be knowledgeable of generally accepted accounting principles and requirements under the accrual basis of accounting. Finally, the financial statements should be reviewed thoroughly by management to determine proper inclusion and treatment of all activity. | C4HCO's Board of Directors and management team are actively engaged in identifying and hiring of additional staff to manage and operate accounting and finance functions, including a Chief Financial Officer, Senior Internal Auditor, and others as needed. An interim Chief Financial Officer joined C4HCO on February 17, 2015. The current staff continues to improve financial policies and procedures, and internal controls. | See 2015-001 for update |
| KC&E | Financial Statement & A-133 Single Audit | 2014-003 | COHBE does not have procedures in place that allow for proper monitoring and follow-up of sub-recipient audits. Specifically, COHBE as pass-through entity does not have procedures to ensure that sub-recipients expending \$500,000 or more comply with OMB Circular A-133. Questioned costs total \$6,008,388 to 45 sub-recipients. | The Exchange should establish internal control procedures that ensure compliance with the monitoring of sub recipient audits. | The Exchange agree that an audit requirement exists with respect to a subset of the subrecipients expending \$500,000 or more in federal awards during the subrecipient's fiscal year. The draft report indicates that the total amount paid to subrecipients was \$6,008,388. However, the relevant portion for purposes of the findings herein should directly correlate only with the subrecipients receiving \$500,000 or more (in the relevant fiscal year), not all subrecipients. The Exchange's corrective actions require implementation of procedures: (1) that ensure subrecipients expending \$500,000 or more in federal awards during the subrecipient's fiscal year have met the audit requirements of OMB Circular A-133 and that the required audits are completed within nine months of the end of the subrecipient's audit period; (2) issuing a management decision on audit findings within six months after receipt of the subrecipient's audit report; and (3) ensuring that the subrecipient takes timely and appropriate corrective action on all audit findings, if any | see 2015-004 for update |
| KC&E | Financial Statement & A-133 Single Audit | 2014-004 | COHBE failed to comply with sub-recipient reporting requirements under FFATA to file a sub-award report by the end of the month following the month in which COHBE awarded any sub-grant greater than or equal to \$25,000. There were no associated questioned costs. | The Exchange should comply with the reporting requirements as soon as possible. Additionally, the Exchange should implement control procedure to ensure that reporting requirements are met timely in the future. | The Exchange remains aware of the reporting requirements under FFATA and will comply with the reporting requirements as soon as possible. Additionally, the Exchange will implement control procedures to ensure that reporting requirements are met timely moving forward. | see 2015-005 for update |
| KC&E | Financial Statement & A-133 Single Audit | 2014-006 | COHBE used Federal funds to purchase certain promotional items, including sunscreen, lip balms, beanies, t-shirts, bike bottles, etc. COHBE is also under contract with one of its vendors which requires that a management fee be paid at 15% of the reimbursed costs. | Employees with procurement responsibility should be adequately trained and able to identify unallowable costs under the federal program. | The Exchange's procurement policies and procedures will entail such periodic and on-going training as required to allow responsible staff members to identify unallowable costs associated with federal grant monies. | Training program in implementation |

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| KC&E | Financial Audit Operational Matters | 1 | Any cash receipts received through the mail (i.e. checks) are required to be recorded by the Office Manager in a cash receipts log. The cash receipts log is then later reconciled to the final deposit within the Exchange's bank account by the Office Manager. This process allows for proper segregation of duties and strengthens internal controls over cash receipts. However, during our testing, we noted that not all cash receipts are being recorded within the cash receipts log, as required. Also, the cash receipts log is not being reconciled to the final deposit within the Exchange's bank account. | We recommend that the Exchange adhere to its policy, requiring all cash receipts received by mail to be recorded in the cash receipts log and later reconciled to the final deposit. | Policy/Procedure implemented requiring all receipts to be logged by office manager. C4 staff have been notified of cash receipt policy. | |
| KC&E | Financial Audit Operational Matters | 2 | The Exchange only operates one program related to the establishment and operating of a state health insurance exchange. As a result, all employees spend their time on the one program and all salaries are reimbursable under the federal grant. Therefore, employees of the Exchange have not documented the allocation of their time by program, as normally required by federal cost principles. However, OMB Circular A-87 requires that, where employees are expected to work solely on a single Federal award, charges for their salaries should be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications should be prepared at least semi-annually and should be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee. | If the Exchange does elect in the future to charge salaries and related expenses to the federal grant, employees should then properly document and allocate their time between operational vs. non-operational activities, in accordance with requirements under federal costs principles. | A payroll certification procedure and form has been developed and implemented for use when Federal funds are being used | |

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| KC&E | Financial Audit Operational Matters | 3 | <p>As a result of our audit, several unallowable costs were identified as being charged to the federal grant, but not required to be reported in the "Schedule of Findings and Questioned Costs" as they did not meet the \$25,000 reporting threshold. First, retention bonuses, totaling \$23,500 were paid to select employees during the year and charged to the federal grant. Incentive compensation is allowable to the extent that the overall compensation is determined to be reasonable and such costs are paid or accrued pursuant to an agreement entered into in good faith between the entity and the employees before the services were rendered, or pursuant to an established plan followed by the entity so consistently as to imply, in effect, an agreement to make such payment. The retention bonuses paid were not for specific services rendered, were paid to only select employees, and not paid through an established policy of the Exchange. Also, an expense of \$2,700 was charged to the grant which included services regarding promotional giveaways, a cost specifically identified as unallowable under the federal grant. Finally, an expense of \$2,700 was charged to the grant for the monthly rental of a vehicle. However, the business purpose of the rental was not properly documented with the payment.</p> | <p>Internal controls should be implemented as to allow for proper identification of unallowable costs in a timely manner.</p> | <p>Eventhough Federal funds are no longer being used for the reimbursement of expenditures, additional processes have been established to assist in the quality control of the coding of expenditures in the accounting system including the implementation of department level accounting, reporting and budgeting.</p> | |
| KC&E | Financial Audit Operational Matters | 4 | <p>4) In order to monitor subrecipient spending under subawards, the Exchange completes rollforwards of subrecipient grant amounts that itemize the expenses reimbursed and compares the amounts to approved budgets. However, during fiscal 2015, these rollforwards were not effectively completed and utilized by the Exchange. Rather, only the fiscal 2015 amounts were compared to budgeted amounts and the itemized rollforwards did not properly include 2014 amounts. Because the grant periods cover both fiscal years, it is important that both years of expenses are included in the itemized rollforwards, in order to accurately compare budgeted amounts to actual reimbursements. This control is important to ensure that amounts reimbursed to subrecipients under the federal grant fall within approved budget amounts and are allowable.</p> | <p>The Exchange should complete itemized rollforwards of each subrecipient grant, comparing actual reimbursements to approved budgeted amounts to ensure costs are allowable and agree to subaward agreements.</p> | <p>This is no longer relevant - subawards have expired</p> | |

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| OSA | Limited Performance Audit | 1a | We identified one or more problems with 21 of the 66 sampled payments (32 percent) that we reviewed. We found that Connect for Health paid for some services and goods that were unallowable, unreasonable, or unnecessary; paid some vendors without evidence of how the payment amounts were determined or documentation of the services provided; and supervisors did not consistently approve expenses before staff paid vendors. These problems with 21 sampled payments totaled \$381,671 and resulted in \$156,937 in questioned costs because of noncompliance with federal requirements | Establishing and implementing written policies and procedures that: (1) require documentation of all goods and services that supports the payment amount and business purpose prior to paying vendors, (2) specify the types of documentation required to verify the receipt of goods and services prior to payment, and (3) require all payments to be allowable, compliant, reasonable, and accurate. | Connect for Health Colorado revised its written Procurement Policy and underlying procurement procedures, approved by the Board of Directors July 2015, to address: (1) documentation to support appropriate payment to vendors; (2) documentation to support receipt of goods and services; and (3) assessment of the reasonability and accuracy of any payment under an existing contract. Update: The August response failed to include a reference to the accounts payable bill processing procedure. In November 2015, Connect for Health Colorado provided the State Auditor a copy of the Accounts Payable Bill Processing and Check Run procedure (AP procedure) that details the process followed when paying all invoices by the organization. The procedure provides the specific steps taken in the processing of invoices (including the documentation required) prior to making payment | |
| OSA | Limited Performance Audit | 1b | We identified one or more problems with 21 of the 66 sampled payments (32 percent) that we reviewed. We found that Connect for Health paid for some services and goods that were unallowable, unreasonable, or unnecessary; paid some vendors without evidence of how the payment amounts were determined or documentation of the services provided; and supervisors did not consistently approve expenses before staff paid vendors. These problems with 21 sampled payments totaled \$381,671 and resulted in \$156,937 in questioned costs because of noncompliance with federal requirements | Establishing and implementing written processes and guidance that ensure staff and supervisors understand federal compliance requirements and consistently review all pending payments for compliance, reasonableness, and accuracy before they are paid. Each review should be performed and documented by an individual who is independent of the preparer and possesses sufficient knowledge of compliance and accounting requirements | Connect for Health Colorado revised its financial procedures, approved by the Board of Directors July 2015 as part of the Procurement Policy, to address: (1) supervisory and staff understanding of federal compliance requirements; and (2) review, assessment and documentation of the reasonability and accuracy of any payment prior to making such payment. | |
| OSA | Limited Performance Audit | 1c | We identified one or more problems with 21 of the 66 sampled payments (32 percent) that we reviewed. We found that Connect for Health paid for some services and goods that were unallowable, unreasonable, or unnecessary; paid some vendors without evidence of how the payment amounts were determined or documentation of the services provided; and supervisors did not consistently approve expenses before staff paid vendors. These problems with 21 sampled payments totaled \$381,671 and resulted in \$156,937 in questioned costs because of noncompliance with federal requirements | Ensuring that there is an adequate number of supervisors and staff available to review financial documentation, verify the basis for the billed amounts, and ensure goods and services are received prior to paying vendors. | Connect for Health Colorado's accounting department is fully staffed, as of August 2015 (including supervisors) to review financial documentation, verify billed amounts and ensure goods/services are received prior to paying vendors. | |

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| OSA | Limited Performance Audit | 1d | We identified one or more problems with 21 of the 66 sampled payments (32 percent) that we reviewed. We found that Connect for Health paid for some services and goods that were unallowable, unreasonable, or unnecessary; paid some vendors without evidence of how the payment amounts were determined or documentation of the services provided; and supervisors did not consistently approve expenses before staff paid vendors. These problems with 21 sampled payments totaled \$381,671 and resulted in \$156,937 in questioned costs because of noncompliance with federal requirements | Establishing and implementing a risk-based process for expediting low-risk purchases, such as low-dollar recurring administrative expenses, to expedite the procurement process, as appropriate, during times of high workload within the organization | Low-risk low-dollar, currently defined at \$5,000, recurring purchases are managed with a Connect for Health Colorado credit card allowing control and review of recurring administrative expense. Update: To further clarify the small purchase process and add additional centralized controls, a separate Small Purchases procedure was implemented. In regards to the \$5,000 limit identified in the procurement policy. While the lower limit on the credit card of \$3,000 has provided an extra level of control for the potential of abuse of the credit account, it has also created operational challenges in regards to small purchases. Even a \$5,000 credit card limit that matches the one-time purchase limit, would create a challenge since in any given month small purchases (purchases under \$5,000) could easily exceed the \$5,000 credit card limit. Connect for Health Colorado believes a centralized purchasing process is the best solution for these types of purchases and is a more holistic approach to the operational needs of the organization yet provides the level of control needed for these types of purchases. The implementation of the Small Purchase procedures are the initial step in establishing centralized control over small purchases. In addition, the Financial Policy was updated (and approved) to provide high level direction and higher authorization levels for small purchases/credit accounts that addresses the low credit card limit issue. As the new process evolves and more automated processes are developed the procedure for small purchases will be updated. In addition a Credit Card Policy has been established governing the overall use of corporate credit cards. | |
| OSA | Limited Performance Audit | 1e | We identified one or more problems with 21 of the 66 sampled payments (32 percent) that we reviewed. We found that Connect for Health paid for some services and goods that were unallowable, unreasonable, or unnecessary; paid some vendors without evidence of how the payment amounts were determined or documentation of the services provided; and supervisors did not consistently approve expenses before staff paid vendors. These problems with 21 sampled payments totaled \$381,671 and resulted in \$156,937 in questioned costs because of noncompliance with federal requirements | Implementing an ongoing periodic monitoring process that involves members of the Board of Directors (Board), management, and supervisors, as appropriate, to ensure financial policies, procedures, processes, guidance, and training are implemented and operating as intended. | Connect for Health Colorado is conducting and will continue to conduct periodic monitoring to ensure financial policies, procedures, processes, guidance, and training and operating as intended with the involvement of the Board (Finance Committee), management (CFO) and supervisors, as needed. | |
| OSA | Limited Performance Audit | 1f | We identified one or more problems with 21 of the 66 sampled payments (32 percent) that we reviewed. We found that Connect for Health paid for some services and goods that were unallowable, unreasonable, or unnecessary; paid some vendors without evidence of how the payment amounts were determined or documentation of the services provided; and supervisors did not consistently approve expenses before staff paid vendors. These problems with 21 sampled payments totaled \$381,671 and resulted in \$156,937 in questioned costs because of noncompliance with federal requirements | Training management, supervisors, staff, and Board members, as appropriate, on the policies, procedures, processes, and guidance developed in recommendation parts a. through e. | Connect for Health Colorado has provided and will provide periodic training of management, supervisors, staff and Board members on the policies, procedures, and processes for the preceding recommendations, as needed. | |

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| OSA | Limited Performance Audit | 1g | <p>We identified one or more problems with 21 of the 66 sampled payments (32 percent) that we reviewed. We found that Connect for Health paid for some services and goods that were unallowable, unreasonable, or unnecessary; paid some vendors without evidence of how the payment amounts were determined or documentation of the services provided; and supervisors did not consistently approve expenses before staff paid vendors. These problems with 21 sampled payments totaled \$381,671 and resulted in \$156,937 in questioned costs because of noncompliance with federal requirements</p> | <p>Recovering payments for the unallowable costs and payment errors identified in this audit, including identifying and recovering payments to vendors made using the cost plus a percentage method and reporting the results of these efforts to the Board. This should include reviewing current vendor contracts to identify those allowing the cost plus a percentage payment, revising the contracts, and prohibiting future contracts from allowing this payment method.</p> | <p>Cost plus percentage payment provisions are not allowed under Connect for Health Colorado's Procurement Policy, approved by the Board of Directors July 2015. Contractual audit provisions assist Connect for Health Colorado in vendor management to identify unallowable costs and payments errors that may arise. Connect for Health's accounting personnel identified the "plus percentage" cost paid to a vendor in the amount of \$229,511. These costs were reclassified from the federal funding source to non-federal grant funds in the accounting system, for the fiscal year ended June 30, 2014. After reclassification Connect for Health determined it was not appropriate (practical or cost-effective) to attempt to recover such monies. The costs were deemed to be contractual expenses for which the Organization received appropriate value. The subsequent request for payment from the [federal] Payment Management System was reduced by the full amount.</p> <p>Update:A thorough review of each of the identified vendor costs was performed and the resolution documented and provided to the State Auditor. The determination of whether the cost was recoverable was made based on this in depth investigation. It was determined that \$46,998 paid to vendors [of the total \$156,937 questioned costs in the finding] were legitimate business expenses but were not federally reimbursable. Adjustments were made to reclassify the funding to non-federal funds and not use federal funds for these costs. \$109,939 in costs related to this finding were deemed legitimate allowable business expenses based on following up, obtaining additional supporting documentation/invoices, and/or analysis of the documentation. Appropriate measures were taken based on these findings including the enhancing of internal processes to reduce the risk of these errors occurring in the future along with the establishment (in the updated Financial Policies) of a policy requiring the resolution of errors, overpayments and noncompliance issues in a timely manner.</p> | |
| OSA | Limited Performance Audit | 2a | <p>We found that Connect for Health did not administer its contracts in compliance with its internal policies and procedures or follow all applicable federal requirements. We identified one or more problems with 20 of the 22 sampled contracts (91 percent) from Fiscal Year 2014, and 29 of the 53 sampled vendors (55 percent) that we reviewed. We identified instances where Connect for Health did not execute contracts before paying vendors; paid contractors out of compliance with contracts, or paid more than the contracts allowed; did not obtain Board approval for some high-dollar contracts; and executed contracts that were incomplete or insufficient to ensure public funds are used effectively. The problems we identified with Connect for Health's contracts totaled \$31,639,461 and resulted in \$170,296 in questioned costs because of noncompliance with federal requirements or contract terms.</p> | <p>Establishing a comprehensive written procurement policy or procedure that specifies the Board of Directors' (Board's) responsibilities for contract approval. This should include establishing an appropriate minimum threshold for executing contracts, implementing a consistent Board-approval procedure for all contracts of \$150,000 or more, and establishing reporting and approval procedures for payments that exceed the amount that was approved by the Board.</p> | <p>Connect for Health Colorado comprehensively revised its Procurement Policy and underlying procedures, approved by the Board of Directors July 2015, specifying the circumstances that require Board approval of procurements using federal funds, currently exceeding \$150,000 and \$250,000 for procurements not using federal funds, and establishing reporting and approval processes for payments that materially exceed approved amounts, currently defined as 5% or \$5,000, whichever is greater</p> <p>Update: Upon further analysis of the existing procurement policy, it was concluded there was a gap in procedural guidance between the procurement policy and the process for ongoing contract management. While the procurement policy requires Board involvement for "material" threshold overages in the initial stages of the contract, the definition of these overages and associated steps to be taken for ongoing monitoring and resolution of contract overages was not defined in the procurement policy. In response to this gap in documented controls, the Financial Policies were revised (and approved) to require an ongoing contract management process that will monitor contract terms, expenditure levels and appropriately report discrepancies over the life of a contract. New Contract Management Procedures have been implemented that assures compliance with this new financial policy and adds definition around contract overages (both materiality and required approvals) beyond the procurement stage. These new policy and procedures were designed to work in conjunction with the existing procurement policy and procedures.</p> | |

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| OSA | Limited Performance Audit | 2b | We found that Connect for Health did not administer its contracts in compliance with its internal policies and procedures or follow all applicable federal requirements. We identified one or more problems with 20 of the 22 sampled contracts (91 percent) from Fiscal Year 2014, and 29 of the 53 sampled vendors (55 percent) that we reviewed. We identified instances where Connect for Health did not execute contracts before paying vendors; paid contractors out of compliance with contracts, or paid more than the contracts allowed; did not obtain Board approval for some high-dollar contracts; and executed contracts that were incomplete or insufficient to ensure public funds are used effectively. The problems we identified with Connect for Health's contracts totaled \$31,639,461 and resulted in \$170,296 in questioned costs because of noncompliance with federal requirements or contract terms. | Establishing and implementing procedures and processes to accurately track each contract and monitor payments to vendors to ensure that payments do not begin before the contract is fully executed and do not exceed contract amounts without appropriate Board and management approval, an executed addendum to the contract statement of work, and documentation of the services provided. | In connection with the Procurement Policy and underlying procedures, approved by the Board of Directors July 2015, Connect for Health Colorado monitors contracts and payments to vendors to ensure that payments do not begin before the contract effective date and do not exceed contract amounts without appropriate Board and/or management approval. Also, contractual amendments are required to reflect changes to the contractual relationship as is appropriate. Appropriate documentation of services provided and a current agreement are required prior to payment of any invoice. Update: Financial policies and procedures have been implemented that address both the monitoring of contracts and the payment process. As mentioned in the response to Recommendation 2a, a policy, and related procedures, were instituted related to the ongoing financial management & monitoring of contracts. The new Contract Management procedures were implemented in conjunction with the existing AP procedures to assure proper controls are in place restricting the disbursement of funds prior to the contract date or when payments exceed contract amounts. | |
| OSA | Limited Performance Audit | 2c | We found that Connect for Health did not administer its contracts in compliance with its internal policies and procedures or follow all applicable federal requirements. We identified one or more problems with 20 of the 22 sampled contracts (91 percent) from Fiscal Year 2014, and 29 of the 53 sampled vendors (55 percent) that we reviewed. We identified instances where Connect for Health did not execute contracts before paying vendors; paid contractors out of compliance with contracts, or paid more than the contracts allowed; did not obtain Board approval for some high-dollar contracts; and executed contracts that were incomplete or insufficient to ensure public funds are used effectively. The problems we identified with Connect for Health's contracts totaled \$31,639,461 and resulted in \$170,296 in questioned costs because of noncompliance with federal requirements or contract terms. | Consistently utilizing contract templates that include federally required provisions and developing and implementing written procedures to review all contracts for completeness before they are executed. This should include ensuring contracts contain all required provision, are signed by authorized management, and specify statements of work, periods of performance, and payment terms | Connect for Health Colorado utilizes contract templates as the starting place for contracting with required contract provisions that include execution/effective date requirements, specified services, periods of performance/term, and payment specifics. Additional terms and provisions are added as unique circumstances and organizational goals warrant, effective with the adoption of the Procurement Policy, approved by the Board of Directors July 2015. | |
| OSA | Limited Performance Audit | 2d | We found that Connect for Health did not administer its contracts in compliance with its internal policies and procedures or follow all applicable federal requirements. We identified one or more problems with 20 of the 22 sampled contracts (91 percent) from Fiscal Year 2014, and 29 of the 53 sampled vendors (55 percent) that we reviewed. We identified instances where Connect for Health did not execute contracts before paying vendors; paid contractors out of compliance with contracts, or paid more than the contracts allowed; did not obtain Board approval for some high-dollar contracts; and executed contracts that were incomplete or insufficient to ensure public funds are used effectively. The problems we identified with Connect for Health's contracts totaled \$31,639,461 and resulted in \$170,296 in questioned costs because of noncompliance with federal requirements or contract terms. | Establishing and implementing written procedures to ensure that complete information about contracts exceeding the approval thresholds is provided to the Board and documented in Board minutes. This should include a process to ensure Board approvals are documented. | Connect for Health Colorado's revised Procurement Policy, approved by the Board of Directors July 2015, addresses contracts materially exceeding the applicable approval thresholds (as noted above), appropriate Board review and acceptable documentation. Board review and approvals are documented in the minutes of the Board meetings and tracked in spreadsheet. Update: The updated Financial Policies require the establishment of a contract management process for the tracking of contract expenditures and additional approvals when expenditures exceed contracted amounts. As discussed in the update to Recommendations 2a and 2b, new Contract Management procedures were implemented to address the new policy and delineate the approvals needed. The new procedures require the tracking of remaining contract amounts based on the historical payments processed in the accounting system. The procedures track the approval levels of each contract and flag contracts that will exceed the approved contract amount and any relevant procurement thresholds. The Contract Management procedures require and direct that additional approval is needed before releasing additional payments on a contract when cumulative payments exceed the contract amount. | |

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| OSA | Limited Performance Audit | 2e | We found that Connect for Health did not administer its contracts in compliance with its internal policies and procedures or follow all applicable federal requirements. We identified one or more problems with 20 of the 22 sampled contracts (91 percent) from Fiscal Year 2014, and 29 of the 53 sampled vendors (55 percent) that we reviewed. We identified instances where Connect for Health did not execute contracts before paying vendors; paid contractors out of compliance with contracts, or paid more than the contracts allowed; did not obtain Board approval for some high-dollar contracts; and executed contracts that were incomplete or insufficient to ensure public funds are used effectively. The problems we identified with Connect for Health's contracts totaled \$31,639,461 and resulted in \$170,296 in questioned costs because of noncompliance with federal requirements or contract terms. | Training management, staff, and Board members, as appropriate, on the policies, procedures, and processes developed in recommendation parts a. through d | Connect for Health Colorado has provided and will provide periodic training of management, supervisors, staff and Board members on the policies, procedures and processes for the preceding recommendations, as needed. | |
| OSA | Limited Performance Audit | 3a | We identified one or more problems with 10 of the 26 grantee transactions (38 percent) that we sampled. We also found problems with Connect for Health's use of federal funds to pay six grantees that were outside of the sample. Overall, we found that Connect for Health paid some grantees federal funds for unallowable services; reimbursed grantees without evidence to support the services provided or the payment amounts; and paid some grantees based on miscalculated payment requests, in an untimely manner, and without supervisory review. These problems with payments to grantees totaled \$590,000 and resulted in \$84,905 in questioned costs because of noncompliance with federal requirements | Establishing and implementing comprehensive written policies and procedures to administer its grant program. This should include written policies and/or procedures that prohibit the organization from obtaining or using federal funds for pay grantees that federal requirements prohibit from receiving federal funds; ensure grantees are paid in compliance with their contract terms and the documentation supporting grantees' actual costs; and ensure timely payment processing | Connect for Health Colorado utilizes written procedures, effective December 31, 2014, to administer its grant program, including: (1) procedures that control the process of obtaining or using federal funds; (2) ensuring grantees are paid in compliance with contract terms; (3) documenting allowable grantees' costs; and (4) ensuring timely payment processing. Update: Connect for Health has established a number of levels of control in regards prohibiting payments to grantees that are not allowed to receive federal funds. At the highest level, the Financial Policies were expanded to address the use of Federal funds including the requirement to screen vendors/subrecipients for eligibility to receive Federal funds. Also, for commitments exceeding the Federal fund procurement threshold, Section VI of the Procurement Policy prohibits the establishment of contractual relationships with parties that are excluded from receiving Federal funds. Another layer of control is provided by the existing Accounts Payable Bill Processing and Check Run procedures requiring the checking of eligibility for Federal funds via the Excluded Parties List System (EPLS) prior to setting up any party in the accounting system that receives disbursements. The AP procedures prohibit the payment of invoices with Federal funds if the vendor is shown as not being eligible. In addition, the Assistant Network Grant Procedures requires verification that grantee is not on the EPLS. | |

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| OSA | Limited Performance Audit | 3b | We identified one or more problems with 10 of the 26 grantee transactions (38 percent) that we sampled. We also found problems with Connect for Health's use of federal funds to pay six grantees that were outside of the sample. Overall, we found that Connect for Health paid some grantees federal funds for unallowable services; reimbursed grantees without evidence to support the services provided or the payment amounts; and paid some grantees based on miscalculated payment requests, in an untimely manner, and without supervisory review. These problems with payments to grantees totaled \$590,000 and resulted in \$84,905 in questioned costs because of noncompliance with federal requirements | Establishing and implementing processes to oversee the grant program, including ensuring that there are adequate staff to review and process payment requests in a timely manner; ensuring staff review documentation supporting grantee payment request and correct errors prior to payment; implementing consistent supervisory reviews of transactions before grantees are paid; and accurately recording all transactions in the general ledger. | Connect for Health Colorado's accounting and finance department is fully staffed as of August 2015 to: (1) review and process payment requests in a timely manner; (2) review documentation supporting grantee payment requests and correct errors prior to payment; (3) engage in supervisory reviews of transactions before grantees are paid; and (4) accurately record transactions in the general ledger. | |
| OSA | Limited Performance Audit | 3c | We identified one or more problems with 10 of the 26 grantee transactions (38 percent) that we sampled. We also found problems with Connect for Health's use of federal funds to pay six grantees that were outside of the sample. Overall, we found that Connect for Health paid some grantees federal funds for unallowable services; reimbursed grantees without evidence to support the services provided or the payment amounts; and paid some grantees based on miscalculated payment requests, in an untimely manner, and without supervisory review. These problems with payments to grantees totaled \$590,000 and resulted in \$84,905 in questioned costs because of noncompliance with federal requirements | Evaluating the practice of making advance payments to grantees before services are provided. If this practice continues, Connect for Health should develop a written policy and/or procedure requiring grantees to submit documentation demonstrating an immediate need before making advance payments to grantees; an appropriate supervisory review of all advance payments for reasonableness, appropriateness, and federal compliance; and a reconciliation to ensure grantees spend all advances before receiving subsequent advances | Connect for Health Colorado reviews payments to grantees before services are provided using written procedures, effective December 31, 2014 to: (1) require grantees to submit documentation demonstrating an immediate need before making advance payments; (2) obtain supervisory review of advance payments for reasonableness, appropriateness, and federal compliance; and (3) perform reconciliations to ensure grantees spend prior advances before receiving additional advances. Update: The Assistance Network Prospective Payment Procedures were updated to provide additional clarity around the demonstration of immediate need. | |
| OSA | Limited Performance Audit | 3d | We identified one or more problems with 10 of the 26 grantee transactions (38 percent) that we sampled. We also found problems with Connect for Health's use of federal funds to pay six grantees that were outside of the sample. Overall, we found that Connect for Health paid some grantees federal funds for unallowable services; reimbursed grantees without evidence to support the services provided or the payment amounts; and paid some grantees based on miscalculated payment requests, in an untimely manner, and without supervisory review. These problems with payments to grantees totaled \$590,000 and resulted in \$84,905 in questioned costs because of noncompliance with federal requirements | Investigating each instance of overpayment, noncompliance, and error identified in the audit and recover funds from grantees, as appropriate | Connect for Health Colorado has reviewed the status of funds provided to all grantees and determined the recovery of funds from grantees was not appropriate as a function of reconciliation and budgeting processes. Update: A thorough review of each of the identified grantee reimbursements was performed and the resolution documented and provided to the State Auditor. The determination of whether the cost was recoverable was made based on this in depth investigation and documented in the report. \$8,022 in overpayments has been recovered from grantees. Additional measures were taken based on these findings including the enhancing of internal processes to reduce the risk of these errors occurring in the future. | |

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| OSA | Limited Performance Audit | 4a | We identified problems in each area we reviewed related to Connect for Health's use and management of federal funds. Specifically, in Findings and Recommendations 1, 2, and 3, we identified audit exceptions in 35 out of the total 92 sampled vendor, contractor, and grantee payments and reimbursements (38 percent) and contracts. These problems totaled \$32,611,132, of which \$412,137 is questioned costs due to federal noncompliance. Overall, Connect for Health did not have sufficient processes and controls over expenditures to ensure federal funds were spent in compliance with regulations, or ensure funds were used prudently or efficiently. | Establishing and implementing appropriate written financial policies, procedures, and internal controls that ensure proper accounting, recording of all financial transactions, and checks, and compliance with applicable laws, regulations, and internal requirements. This should include developing procedures for identifying, reporting, investigating, and correcting transactions that appear noncompliant with laws, regulations, and requirements; developing policies and procedures over reimbursing staff for purchases, such as supplies, equipment, and overtime meals, and considering centralizing procurement for office items such as supplies and equipment. | Connect for Health Colorado established written financial procedures and internal controls effective April 2015 to: (1) ensure proper accounting and recording of financial transactions in compliance with applicable laws, regulations, and internal requirements; (2) identify and correct transactions as necessary; (3) reimburse staff for purchases with accompanying documentation; and (4) centralize procurement for office items. Update: As discussed in the update to Recommendation 1d, a small purchases policy and process has been formalized that provides for both the controls and flexibility needed when purchasing low risk and low dollar administrative goods and services. | |
| OSA | Limited Performance Audit | 4b | We identified problems in each area we reviewed related to Connect for Health's use and management of federal funds. Specifically, in Findings and Recommendations 1, 2, and 3, we identified audit exceptions in 35 out of the total 92 sampled vendor, contractor, and grantee payments and reimbursements (38 percent) and contracts. These problems totaled \$32,611,132, of which \$412,137 is questioned costs due to federal noncompliance. Overall, Connect for Health did not have sufficient processes and controls over expenditures to ensure federal funds were spent in compliance with regulations, or ensure funds were used prudently or efficiently. | Ensuring that an appropriate number of staff and supervisors are assigned to accounting functions, with the appropriate levels of system access and segregation of duties controls in place. | : Connect for Health Colorado's accounting and finance department is fully staffed, as of August 2015, with defined levels of system access and segregation of duties controls, including using the services of an internal audit manager holding a CPA designation | |
| OSA | Limited Performance Audit | 4c | We identified problems in each area we reviewed related to Connect for Health's use and management of federal funds. Specifically, in Findings and Recommendations 1, 2, and 3, we identified audit exceptions in 35 out of the total 92 sampled vendor, contractor, and grantee payments and reimbursements (38 percent) and contracts. These problems totaled \$32,611,132, of which \$412,137 is questioned costs due to federal noncompliance. Overall, Connect for Health did not have sufficient processes and controls over expenditures to ensure federal funds were spent in compliance with regulations, or ensure funds were used prudently or efficiently. | Establishing and implementing periodic risk-based quality control reviews to ensure organizational compliance with laws, regulations, and internal policies and procedures. This should include reporting the results of the reviews to the Board, and revising policies and procedures, as appropriate, based on the results of the reviews. | Connect for Health Colorado established fiscal management quality control reviews and checks (including formalized processes to close the books on a monthly basis, budgeting/variance reviews and cash management) to ensure organizational compliance with laws, regulations, and internal policies and procedures, including reporting the results of the reviews to the Board as needed, and revising policies and procedures, as appropriate, based on the results of the reviews. Update: The Financial Policies were updated (and approved) requiring quality control reviews to be periodically conducted to ensure organizational compliance with laws, regulations, and internal policies and procedures. The policy also requires the results of the quality control reviews to be reported to the Board. The role of the new Internal Audit Manager is to manage/conduct compliance reviews of the organization. An initial plan has been established for the implementation of the quality control review process. The initial focus of the program will be monitoring and testing compliance and effectiveness of the new policies and procedures implemented as the result of recent audit findings. In addition, concurrent with this monitoring, a risk assessment will be conducted to determine any other areas of fiscal control weaknesses and areas needing auditing and/or monitoring. This risk based approach will be used in prioritizing and scheduling internal audits and monitoring going forward | |

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| OSA | Limited Performance Audit | 4d | We identified problems in each area we reviewed related to Connect for Health's use and management of federal funds. Specifically, in Findings and Recommendations 1, 2, and 3, we identified audit exceptions in 35 out of the total 92 sampled vendor, contractor, and grantee payments and reimbursements (38 percent) and contracts. These problems totaled \$32,611,132, of which \$412,137 is questioned costs due to federal noncompliance. Overall, Connect for Health did not have sufficient processes and controls over expenditures to ensure federal funds were spent in compliance with regulations, or ensure funds were used prudently or efficiently. | Training Board members, management, and appropriate staff on the policies and procedures established in recommendation parts a., b., and c. above | Connect for Health Colorado has provided and will provide periodic training of management, supervisors, staff and Board members on the policies, procedures and processes for the preceding recommendations, as needed. | |