

Colorado Health Benefit Exchange
Report to the Finance Committee
Regarding the June 30, 2015 Audit

• **Financial Statements for the year ended June 30, 2015:**

- Financial statements are comparative with unmodified opinion for 2015. An OMB Circular A-133 audit was required for 2015.
- After the audit was finalized for 2014, information became available which supported the determination that certain costs that were expensed in fiscal 2014, totaling \$2,260,670, met the criteria to be capitalized. As a result, management decided to reclassify these costs from expenses to capital assets. This is considered a restatement to prior year's figures and is discussed in note 8 to the financial statements.

Statements of Net Position:

- Cash had a balance of \$33,741,071 at June 30, 2015, compared to \$21,181,469 at June 30, 2014.
- Accounts receivable totals \$6,136,214 at June 30, 2015, compared to \$2,245,804 at June 30, 2014, an increase of \$3,890,410. Amounts due from carriers for fees earned totaled \$6,017,774 at June 30, 2015, compared to \$2,121,878 at June 30, 2014.
- No amounts are receivable under the federal grant at June 30, 2015. Rather, a net liability of \$5,120,886 has been recognized under unearned revenue at June 30, 2015 for amounts due under the federal grant. The Exchange made numerous corrections to the federal grant for unallowable costs identified subsequent to year-end and time of payment, resulting in the overdrawn grant balance at year-end. The grant has been extended to June 30, 2016 and the Exchange continues to spend down on this balance.
- Prepaid expenses totaled \$5,909,349 at June 30, 2015 and mainly consisted of prepaid software licenses and related support costs that cover several years. In the previous year, unearned revenue had been recognized in an amount equal to the prepaid balance due to cash received under the federal grant to pay the future expenses. However, it was determined as a result of the prior year audit that these costs were unallowable. As a result, the deferred revenue was reversed and recognized during fiscal 2015.
- Capital assets have a net book balance of \$37,241,086 at June 30, 2015, compared to \$33,809,077 at June 30, 2014 and mainly consist of software and web portal development. Capital assets purchased during the year ended June 30, 2015 totaled \$12,951,637, compared \$20,957,919 during the prior year. Depreciation and amortization expense totaled \$9,519,628 for 2015, compared to \$4,787,198 for 2014. The Exchange began depreciating most of its capital assets when the Exchange began operating in October 2013.
- Accounts payable and accrued liabilities totaled \$8,130,577 at June 30, 2015, compared to \$17,579,658 at June 30, 2014. This decrease of \$9,449,081 is mainly due to the winding down of large technology contracts and development of the exchange.

Statement of Revenues, Expenses, and Changes in Net Position:

- Federal grants revenue totaled \$45,815,793 for 2015 compared to \$86,163,238 for 2014 and consists of revenue from the Level 2 grant, under the State Planning and Establishment Grants for the Affordable Health Care Act (ACA)'s Exchanges. This grant has been extended to June 30, 2016.

**Colorado Health Benefit Exchange
Report to the Finance Committee, Continued
Regarding the June 30, 2015 Audit**

- Program revenue totaled \$26,398,708 for 2015 and includes revenue mandated under HB 13-1245. The Exchange exercised its right under HB 13-1245 and assessed a fee on carriers at \$1.25 per number of lives covered per month, beginning January 1, 2015. The Exchange also received fees for service revenue totaling \$6,863,548.
 - Expenses totaled \$68,065,291 and \$74,319,517 for 2015 and 2014, respectively. The Exchange's largest expenses consist of customer service expenses totaling \$20,844,789 and technology development expenses totaling \$13,698,543 for the year ended June 30, 2015.
- **OMB A-133 audit and reporting requirements.**
 - **Operational Matters Letter** – See Attached.
 - **Communication with Those Charged with Governance** – See Attached.
 - **Other Matters**
 - Subsequent events update.
 - The OMB Uniform Grant Guidance was issued December 2013. The new guidance will apply to federal grants entered into after December 26, 2014.
 - The tax return is being prepared by KCE and is due May 16, 2016.
 - **Acceptance of Financial Statements**
 - **Executive Session with the Auditors**

DRAFT

3/23/2016

**Colorado Health Benefit Exchange
(dba Connect for Health Colorado)**

**Financial Statements and Required Supplementary
Information**

June 30, 2015 and 2014

(With Independent Auditor's Report Thereon)

Colorado Health Benefit Exchange

Table of Contents

| | |
|--|-----------|
| Independent Auditor’s Report | 1 |
| Management’s Discussion and Analysis | 3 |
| Statements of Net Position, June 30, 2015 and 2014 | 9 |
| Statements of Revenues, Expenses, and Changes in Net Position, Years Ended June 30, 2015 and 2014 | 10 |
| Statements of Cash Flows, Years Ended June 30, 2015 and 2014 | 11 |
| Notes to Financial Statements | 12 |

OMB Circular A-133 Reports

| | |
|--|-----------|
| Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> | 17 |
| Independent Auditor’s Report on Compliance for Each Major Program and on Internal Control over Compliance Required by OMB Circular A-133 | 19 |
| Schedule of Expenditures of Federal Awards, Year Ended June 30, 2015 | 22 |
| Schedule of Findings and Questioned Costs, Year Ended June 30, 2015 | 25 |
| Summary Schedule of Prior Audit Findings | 32 |

Independent Auditor's Report

**Board of Directors
Colorado Health Benefit Exchange:**

Report on the Financial Statements

We have audited the accompanying financial statements of Colorado Health Benefit Exchange (the Exchange), as of and for the years ended June 30, 2015 and 2014, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Colorado Health Benefit Exchange as of June 30, 2015 and 2014, and the changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter – Restatement

As discussed in Note 8 to the financial statements, net assets and capital assets as of June 30, 2014 have been restated to reclassify certain costs, totaling \$2,260,670, from expenses to capital assets.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-8 be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 28, 2016, on our consideration of the Exchange's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Exchange's internal control over financial reporting and compliance.

March 28, 2016

Management's Discussion and Analysis

Colorado Health Benefit Exchange Overview

In 2011, the Colorado General Assembly passed Senate Bill 11-200, which created the Colorado Health Benefit Exchange (C4HCO), now doing business as Connect for Health Colorado (C4HCO), as a public non-profit entity governed by a Board of Directors and reviewed by the Legislative Health Benefit Exchange Implementation Review Committee. The organization's mission is to increase access, affordability and choice for individuals and small employers purchasing health insurance in Colorado. C4HCO is intended to reflect the unique needs of the state, seek Colorado-specific solutions, and to support an open competitive marketplace. C4HCO is serving the individual and small group markets, with an initial potential customer base of one million Coloradans.

In 2015, 152,470 Coloradans from every county in our state signed up for coverage through the Marketplace and 472 small businesses provided coverage to 2,598 employees. We helped return \$180,096,040 million to Coloradans through Advance Premium Tax Credits. Fifty-five percent of our customers qualified for this valuable financial assistance.

Connect for Health Colorado completed a series of significant technological, organizational advancements and transitions in 2015 to set the foundation for long-term success and sustainability. The second open enrollment period included challenges with technology and operations and concluded in February 2015 with 141,637 covered lives. Connect for Health Colorado gathered feedback from stakeholders and partners and used that information to guide preparations for the third open enrollment period. Throughout the year, the organization improved all levels of operations, guided by three priorities:

- Optimize the customer experience
- Stabilize and right-size staffing, systems and processes
- Put the Marketplace on the path to long-term financial sustainability.

With key stabilization activities in place, the third open enrollment commenced on Nov. 1, 2015, with minor issues, despite last-minute State regulatory action to bar the Colorado HealthOP, a significant carrier in the Marketplace, from offering 2016 plans. Two weeks before open enrollment, Connect for Health Colorado made major system changes, including recalculating tax credits, re-running renewal data and notifications, and removing HealthOP plans from the Marketplace. Enrollments grew at a steady pace in November, aided by new customer tools and ways to access broker and Health Coverage Guide assistance. Enrollment activity spiked in December, resulting in 152,470 covered lives by Dec. 31, 2015, thus creating continued momentum toward the end of the third open enrollment period which ended January 31, 2016.

Operationally, the organization has taken steps to reduce expenditures in the transition from being funded by federal grants to being funded by earned revenue. These reductions included a 60 percent reduction in the scope of the Assistance Network, reducing and focusing marketing spending, and placing the Customer Service Center under a single vendor with tighter controls on cost fluctuations.

Connect for Health Colorado adjusted to leadership transition, staff turnover, planned growth, audits and strengthened fiscal management. The Colorado Health Insurance Exchange Oversight Committee provided continuous guidance, reviewing the FY2016 budget in June 2015. The FY 2016 budget includes a strategy to increase staff and reduce the use of long-term consultants. The goal is to fund 78 full-time positions. As of December 2015, there were 67 full-time staff. In October 2015, Kevin Patterson was appointed as the permanent CEO.

Funding

In June 2013, Colorado's Governor signed HB 13-1245 into law, which in conjunction with administrative fees charged for policies purchased on the Marketplace, supports C4HCO becoming a self-sustaining entity after the end of the federal grant period.

More specifically HB 13-1245 allows the following:

- C4HCO may collect a broad market assessment on medical and dental policies in the small group and individual markets sold between 2014 and 2016. For 2014, the Board decided to waive the assessment fee. For 2015, the Board voted to set the fee at \$1.25. The 2016 fee has been set at \$1.80.
- C4HCO has been the beneficiary of reserve funds from CoverColorado. During FY15, \$14,035,553 was received.

Beginning on January 1, 2014, C4HCO charged administrative fees on all policies sold through the Marketplace. The Board will continue to set the fee on an annual basis considering such factors as annual budget requirements, technology and operational reserves, average premiums and enrollment projections. The Board set the fee for calendar years 2014 through 2016 at 1.4%, 1.4% and 3.5%, respectively. The increases in both the administrative fee and the broad market assessment will provide for a smooth transition from the use of Federal grants for ongoing operational purposes and contribute to the long-term sustainability of the organization.

FY15 was a transition year in terms of Federal grant funding. Federal funds continued to be the primary funding for establishment activities. Three Federal grants have been awarded by the Department of Health and Human Services since the inception of the organization.

- First Level 1 Establishment Grant, \$17,951,000, awarded February 22, 2012, and closed out in 2013.
- Second Level 1 Establishment Grant, \$43,486,747, awarded September 27, 2012, and closed out in April, 2014.
- Level 2 Establishment Grant, \$122,301,350, awarded July 9, 2013 and initially scheduled to close December 31, 2014, additional no cost extensions have been granted through June 30, 2016.

One requirement of the Level 2 grant was to develop a sustainability plan that would ensure the ongoing operations of the Marketplace after federal funding ends. Through the steps taken in increasing the administrative fee and broad market assessment, stabilization of the technology, along with tighter cost controls and the pursuit of Medicaid cost sharing, C4HCO is actively implementing its sustainability plan.

Financial Statements

C4HCO's financial statements are prepared in accordance with accounting principles generally accepted in the United States as promulgated by the Governmental Standards Accounting Board (GASB). The Statements of Net Position; Revenues, Expenses, and Changes in Net Position; and Cash Flows are prepared on an accrual basis, and combined with the auditor's notes, provide the reader with an overview of the financial position and activities of the organization.

The primary source of C4HCO's funding for fiscal year 2015 continued to be from federal grants. These federal funds are drawn as costs are incurred. As a result of the reimbursement method of funding, the organization maintains the lowest possible cash balance.

The change in Total Assets between 2014 and 2015 of \$2.4M consist primarily of an increase in capital assets (net) for \$3.4M, offset by a reduction in prepaid expenses (short and long term) of (\$1.0M). Capitalized expenses relate to the development and enhancement of system infrastructure within the Marketplace, and prepaid expenses relate to amounts paid for software and licenses.

The change in Total Liabilities between 2014 and 2015 of (\$11.7M) relates to the reduction of year-over-year establishment costs being incurred for the initial build of key infrastructure and system activities.

The difference between Assets and Liabilities represents the Net Position of the organization, and the change in Net Position over time is one indicator of the organization’s improving or declining financial position. This amount will increase in importance as Connect for Health Colorado moves to a self-sustaining environment. The Net Position increased by \$14.1M from prior year, relating to increased program revenue and reduction of operating expenses.

The Statement of Revenues, Expenses, and Changes in Net Position states the operating and non-operating revenues and expenses for C4HCO during the year. The difference between revenues and expenses is the Change in Net Position and the cumulative differences from inception are presented as the Net Position of C4HCO, reconciling the total Net Position on the statement.

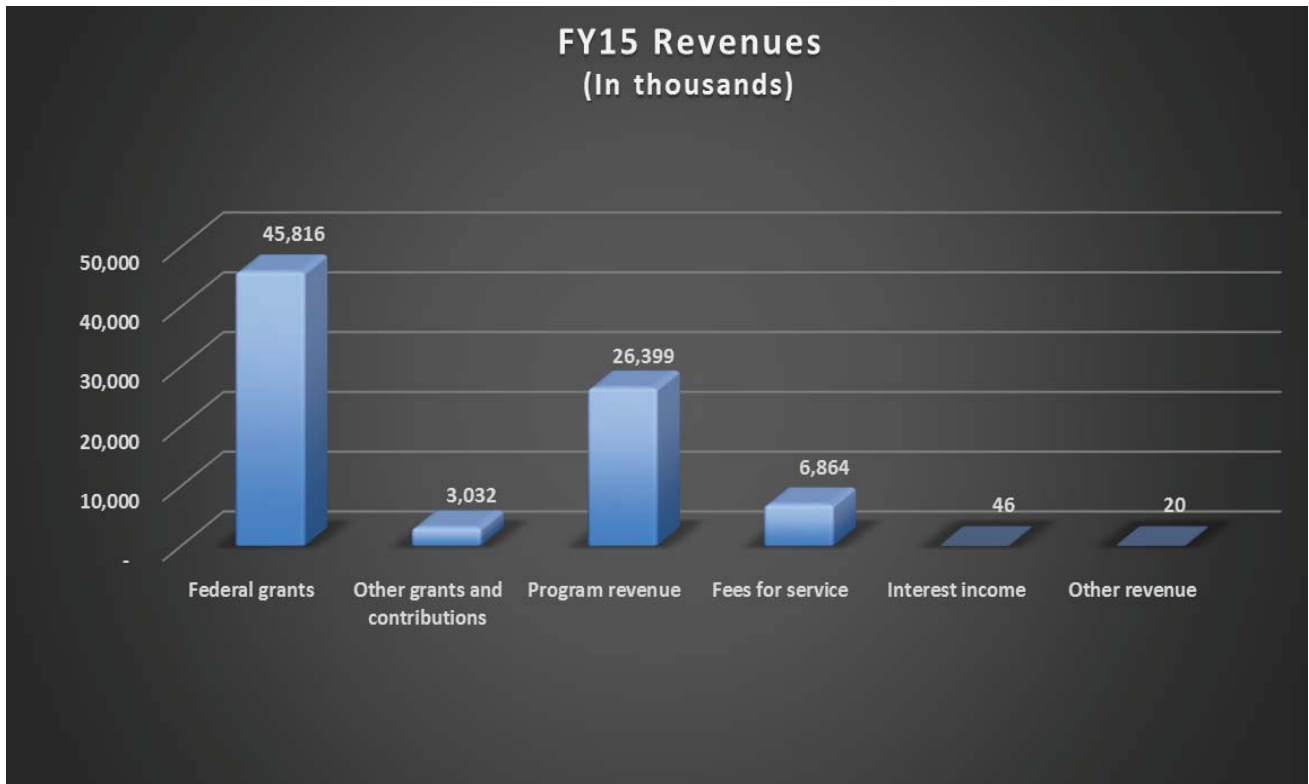
Operating Revenues

Total federal grants revenue for the year was \$45.8M which was a decrease in grant revenue of (\$40.3M) over the prior fiscal year. The decrease was in line with budget expectations, and final uses of these funds are set to expire by June 2016.

There was an additional \$1.6M increase in other grants and contributions, primarily consisting of the The Colorado Health Foundation to financially support the Assistance Network program activities.

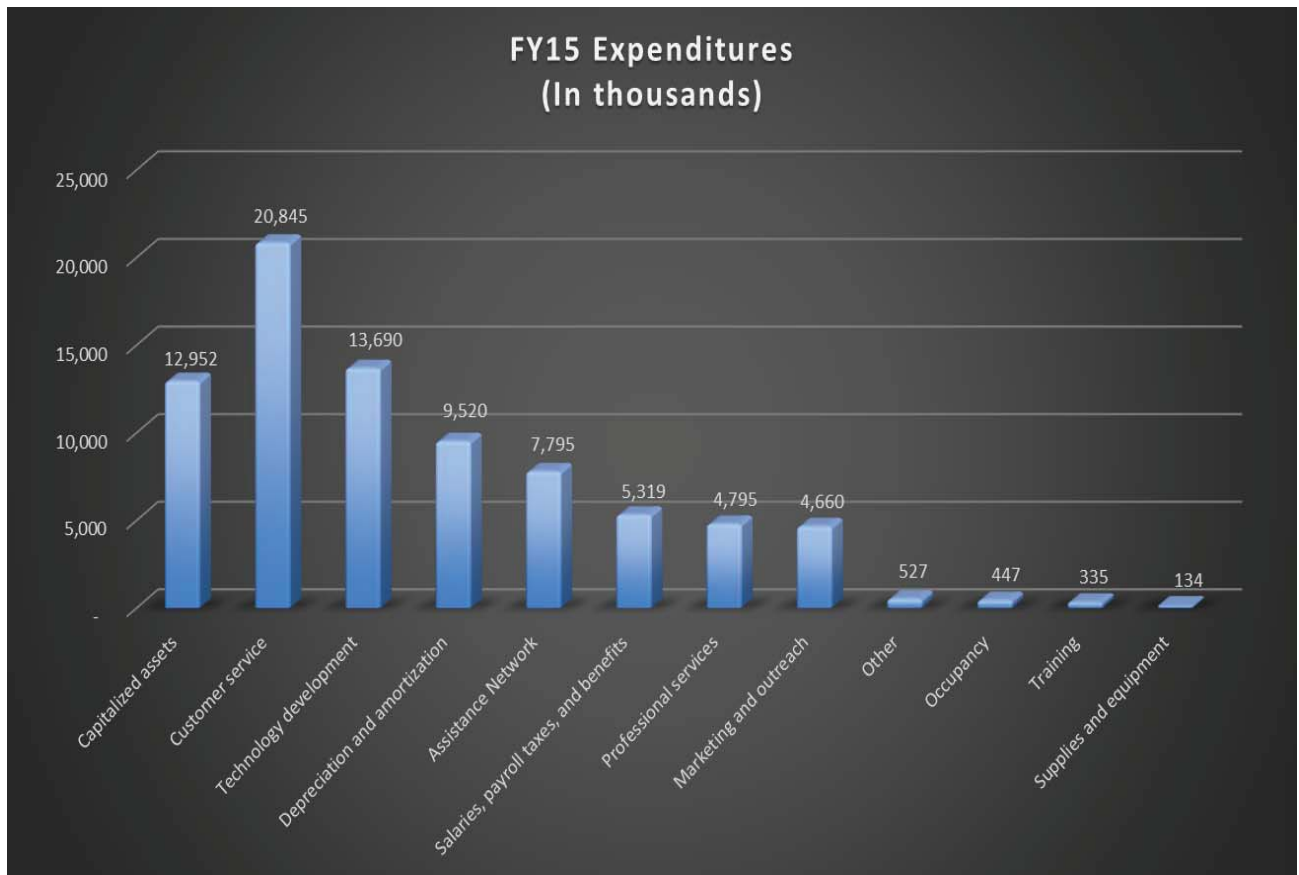
During Fiscal Year 2015, C4HCO also generated \$26.4M in program revenue. This was the result of \$14.0M from CoverColorado, \$5.0M from Carrier Tax Credits and \$7.4M from Special Fee Assessment. The individual service fees through June 30, 2015 were \$6.9M. Other revenue totaled \$20,000.

The balance of other revenue for the fiscal year was \$45,799 which was interest income generated on the program revenue, detailed below.



Expenditures

Total expenses for the fiscal year were \$81.0M, including capitalized assets.



The overall proportionate mix of expenditures decreased from FY14 to FY15, primarily related to capitalized assets, technology expenses, depreciation and marketing/outreach.

- Capitalized assets decreased by \$8.0M or 38%, which relates primarily to the stabilization of the technology platform. Grant funding was the primary source for all technology related system development, and going forward, general operating funds will be used to sustain system upgrades and enhancements.
- Technology expenses decreased by \$5.8M or 30%, primarily due to the same reasoning for the decrease in expended capital assets as explained above.
- Depreciation expense increased by \$4.7M or 99%, which is directly related to capital assets placed in service from inception-to-date. The majority of capital assets will become fully depreciated by fiscal year 2018.
- Marketing and outreach decreased by \$4.1M or 47%. The utilization of grant funds in fiscal years prior to 2015, was primarily used to build a sustainability “baseline” for the organizations statewide marketing framework. This framework would aid in gaining operating efficiencies and streamlining and focusing marketing costs, starting in FY15.

Statement of Cash Flows

The Statement of Cash Flows represents C4HCO’s change in cash and cash equivalents for the year and provides a summary of how cash was utilized. Due to the nature of the reimbursement method and the prescriptive requirements of the grant funding, the Statement of Cash Flows is less of a management tool and more of a reporting tool at this time.

Currently Known Facts and Conditions

Colorado Health Benefit Exchange continues to operate in an environment of change and growth. The Colorado Health Benefit Exchange’s mission is to increase access, affordability, and choice for individuals and small employers purchasing health insurance in Colorado. Enrollment is a key metric used to measure the success of the organization and the achievement of its mission. The most recent open enrollment period, which began November 1, 2015, provides C4HCO with the opportunity to compare the success of its operations over the previous year’s open enrollment.

The charts below represents a comparison of key metrics between the last two open enrollment periods. For the most recent open enrollment period, while the organization was able to take advantage of the auto renewal option for many of their customers, due to the exit of one of the largest carriers in the marketplace many existing customers could not be auto renewed. As shown in the table below, despite the loss of a major marketplace carrier, C4HCO was still able to show an increase in covered lives from the prior period. Average premiums also increased between the plan years along with a shift towards enrollees utilizing advanced premium tax credits (APTC) and/or cost sharing reductions (CSR).

| | Plan Year | |
|---|--------------------|--------------------|
| | 2015 | 2016 |
| Cumulative Total Covered Lives | 159,264 | 175,320 |
| Individual | 156,124 | 172,362 |
| SHOP | 3,140 | 2,958 |
| Enrollments Utilizing APTC/CSR | 54% | 61% |
| Average Selected Monthly Premium | | |
| Non Financially Assisted | \$227 | \$253 |
| Catastrophic | \$124 | \$166 |
| Bronze | \$262 | \$315 |
| Silver | \$314 | \$348 |
| Gold | \$347 | \$376 |
| Platinum | \$351 | \$453 |
| Financially Assisted - Gross/Net | \$391/\$157 | \$455/\$138 |
| Bronze | \$343/\$126 | \$404/\$118 |
| Silver | \$413/\$164 | \$505/\$259 |
| Gold | \$474/\$294 | \$487/\$142 |
| Platinum | \$486/\$325 | \$542/\$343 |

Colorado Health Benefit Exchange also tracks their effectiveness within the State of Colorado by gathering data in regards to the various channels through which Coloradans have enrolled in health insurance coverage.

| Assistance Channels | Plan Year | |
|------------------------------------|---------------|---------------|
| | 2015 | 2016 |
| Broker Assisted Enrollments | 73,093 | 60,034 |
| Certified Brokers | 1,137 | 1,163 |
| HCG Assisted Enrollments | 11,674 | 7,823 |
| Trained Health Coverage Guides | 128 | 124 |
| Certified Application Counselors | 296 | 309 |
| Carrier Direct Enrollments | 761 | 366 |

The organization is currently in the process of revising its strategic plan in conjunction with the development of the FY17 budget. One of the major goals for the process is to determine the necessary steps to achieving long-term sustainability for the organization. Management will work closely with staff, the Board and the Legislative Oversight Committee in the development of the plan and budget with opportunities for public input. Both the strategic plan and budgeting process are to be completed and presented to the Legislative Oversight Committee and Board for approval by June 2016.

The organization is actively seeking a Chief Operating Officer to oversee the outreach, carrier relations and customer service operations.

Contacting Colorado Health Benefit’s Financial Management

This Management’s Discussion and Analysis, the accompanying financial statements, the notes to the financial statements, and the single audit section are designed to provide readers with a general overview of Colorado Health Benefit Exchange’s finances and to reflect accountability and financial transparency relating to funds received and expenditures of those funds. If you have questions about this report or need additional financial information, please contact the organization’s financial team at the corporate offices. Contact information may be found on the website at www.connectforhealthco.com.

Colorado Health Benefit Exchange
Statements of Net Position
June 30, 2015 and 2014

| | 2015 | 2014 |
|--|---------------|-------------|
| Assets: | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 33,741,071 | 21,181,469 |
| Accounts receivable, net of allowance for doubtful accounts of \$33,201 in 2015 and \$0 in 2014 | 6,136,214 | 2,245,804 |
| Federal grants receivable | – | 16,455,727 |
| Prepaid expenses | 2,888,962 | 2,276,896 |
| Total current assets | 42,766,247 | 42,159,896 |
| Noncurrent assets: | | |
| Security deposits | 18,719 | 19,719 |
| Long-term portion of prepaid expenses | 3,020,387 | 4,679,888 |
| Total noncurrent assets | 3,039,106 | 4,699,607 |
| Capital assets (note 2): | | |
| Web portal development | 32,687,048 | 24,444,591 |
| Software | 16,209,994 | 11,611,102 |
| Leasehold improvements | 1,943,642 | 1,912,952 |
| Office equipment | 1,083,698 | 1,063,252 |
| Furniture and fixtures | 833,776 | 774,624 |
| | 52,758,158 | 39,806,521 |
| Less accumulated depreciation and amortization | (15,517,072) | (5,997,444) |
| Capital assets, net | 37,241,086 | 33,809,077 |
| Total assets | \$ 83,046,439 | 80,668,580 |
| Liabilities: | | |
| Current liabilities: | | |
| Accounts payable | \$ 7,564,485 | 9,019,879 |
| Accrued liabilities | 566,092 | 8,559,779 |
| Payroll liabilities | 220,109 | 184,179 |
| Unearned revenue | 5,123,051 | 2,801,494 |
| Total current liabilities | 13,473,737 | 20,565,331 |
| Long-term liabilities: | | |
| Long-term portion of unearned revenue | 38,378 | 4,679,888 |
| Total liabilities | 13,512,115 | 25,245,219 |
| Net Position: | | |
| Net investment in capital assets | 37,241,086 | 33,809,077 |
| Unrestricted | 32,293,238 | 21,614,284 |
| Total net position | 69,534,324 | 55,423,361 |
| Commitments (notes 4 through 6) | | |
| Total liabilities and net position | \$ 83,046,439 | 80,668,580 |

See the accompanying notes to the financial statements.

Colorado Health Benefit Exchange
Statements of Revenues, Expenses, and Changes in Net Position
Years Ended June 30, 2015 and 2014

| | <u>2015</u> | <u>2014</u> |
|--|----------------------|--------------------|
| Operating Revenues: | | |
| Federal grants | \$ 45,815,793 | 86,163,238 |
| Other grants and contributions | 3,032,245 | 1,478,655 |
| Program revenue (note 3) | 26,398,708 | 19,992,000 |
| Fees for service | 6,863,548 | 2,162,295 |
| Interest income | 45,799 | 31,377 |
| Other revenue | 20,161 | – |
| | <u>82,176,254</u> | <u>109,827,565</u> |
| Operating Expenses: | | |
| Customer service | 20,844,789 | 22,056,624 |
| Technology development | 13,689,543 | 21,775,853 |
| Depreciation and amortization | 9,519,628 | 4,787,198 |
| Assistance network | 7,795,220 | 7,797,599 |
| Salaries, payroll taxes, and benefits | 5,318,520 | 3,845,067 |
| Professional services | 4,795,210 | 3,087,339 |
| Marketing and outreach | 4,659,798 | 8,791,633 |
| Other | 526,885 | 371,435 |
| Occupancy | 446,612 | 336,986 |
| Training | 335,185 | 1,260,838 |
| Supplies and equipment | 133,901 | 208,945 |
| | <u>68,065,291</u> | <u>74,319,517</u> |
| Increase in net position, as previously reported | 14,110,963 | 35,508,048 |
| Adjustment for reclassification of expenses to capital assets (note 8) | – | 2,260,670 |
| Increase in net position, as restated | 14,110,963 | 37,768,718 |
| Net position at beginning of year | <u>55,423,361</u> | <u>17,654,643</u> |
| Net position at end of year | <u>\$ 69,534,324</u> | <u>55,423,361</u> |

See the accompanying notes to the financial statements

Colorado Health Benefit Exchange
Statements of Cash Flows
Years Ended June 30, 2015 and 2014

| | 2015 | 2014 |
|---|---------------|--------------|
| Cash flows from operating activities: | | |
| Federal grants received | \$ 60,480,227 | 93,045,330 |
| Other grants and contributions received | 2,500,000 | 1,478,655 |
| Other operating revenue received | 29,441,391 | 20,000,144 |
| Cash paid for grants to subrecipients | (4,712,409) | (6,008,388) |
| Cash paid to vendors for materials and services | (56,915,380) | (62,614,549) |
| Cash paid to employees for wages, taxes and benefits | (5,282,590) | (3,794,807) |
| Net cash provided by operating activities | 25,511,239 | 42,106,385 |
| Cash flows used in capital and related financing activities: | | |
| Purchases of capital assets | (12,951,637) | (20,957,919) |
| Net cash used in capital and related financing activities | (12,951,637) | (20,957,919) |
| Net increase in cash and cash equivalents | 12,559,602 | 21,148,466 |
| Cash and cash equivalents at beginning of year | 21,181,469 | 33,003 |
| Cash and cash equivalents at end of year | \$ 33,741,071 | 21,181,469 |
| Reconciliation of increase in net position to net cash provided by operating activities: | | |
| Increase in net position | \$ 14,110,963 | 37,768,718 |
| Adjustments to reconcile increase in net position to net cash provided by operating activities | | |
| Depreciation and amortization | 9,519,628 | 4,787,198 |
| Decrease (increase) in operating assets: | | |
| Accounts receivable | (3,890,410) | (2,185,528) |
| Federal grants receivable | 16,455,727 | (2,849,769) |
| Prepaid expenses | 1,047,435 | (5,318,558) |
| Security deposits | 1,000 | (2,174) |
| Increase (decrease) in operating liabilities | | |
| Accounts payable and accrued liabilities | (9,413,151) | 4,064,442 |
| Unearned revenue | (2,319,953) | 5,842,056 |
| Net cash provided by operating activities | \$ 25,511,239 | 42,106,385 |

See the accompanying notes to the financial statements

Colorado Health Benefit Exchange
Notes to Financial Statements
June 30, 2015 and 2014

(1) Summary of Significant Accounting Policies

(a) Organization

In 2011, the Colorado General Assembly passed, and the Governor signed into law, Senate Bill 11-200, which authorized the creation of Colorado Health Benefit Exchange (the Exchange) for the purpose of establishing a state health insurance exchange in compliance with the Patient Protection and Affordable Care Act (ACA) of 2010. The Exchange was organized as an instrumentality of the State and further defined as a nonprofit corporation created to facilitate a health benefit exchange to increase access, affordability, and choice for individuals and small employers purchasing health insurance in Colorado.

Federal grant funding is being provided to finance the Exchange design, development, and implementation phases. This funding began in 2011 and extends to June 30, 2016. The Exchange began conducting business in October 2013.

During the year ended June 30, 2013, the Exchange began doing business as Connect for Health Colorado.

(b) Basis of Accounting

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America for proprietary (enterprise) funds. The financial statements have been presented on the economic resources measurement focus and the accrual basis of accounting. Accordingly, revenues are recognized when earned and expenses are recognized when incurred. The Exchange has adopted the pronouncements of the Governmental Accounting Standards Board (GASB).

(c) Cash Equivalents

For purposes of the statements of cash flows, the Exchange considers all unrestricted highly liquid investments with original maturities of three months or less to be cash equivalents.

(d) Federal Grants Receivable

Federal grants receivable consists of unreimbursed federal grant funds as of June 30, 2014. The Exchange considers the federal grants receivable to be fully collectible; accordingly, no allowance for doubtful accounts has been recognized for the federal grants receivable.

(e) Accounts Receivable

The change in net position is charged with an allowance for estimated uncollectible accounts based on an analysis of current accounts receivable collectability. Accounts deemed uncollectible are charged to the change in net position when that determination is made. At June 30, 2015, the Exchange has recognized an allowance of \$33,201. At June 30, 2014, no allowance was recognized by the Exchange.

Colorado Health Benefit Exchange
Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(f) Capital Assets

The Exchange follows the practice of capitalizing, at cost, all expenditures for capital assets in excess of \$5,000 and groups of lower cost assets that exceed \$5,000, as well as donations of capital assets, with estimated fair values exceeding \$5,000, at the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets ranging from five to seven years.

(g) Federal Grant Revenue

Federal grant revenue is recognized as related expenses are incurred and work is performed. Any funding received in advance is recorded as unearned revenue. At June 30, 2015, federal grant funds received in advance and recognized as unearned revenue total \$5,120,886. Unearned federal grant revenue related to prepaid expenses totals \$6,956,784 at June 30, 2014.

(h) Net Position

Net position represents all assets, less liabilities. Net position is displayed in the statement of net position in the following categories:

Net investment in capital assets: Capital assets, net of accumulated depreciation.

Restricted: Net position subject to externally imposed stipulations on their use. There are no restrictions as of June 30, 2015 and 2014 that are narrower than the Exchange.

Unrestricted: All remaining net position that does not meet the definition of “net investment in capital assets” or “restricted”.

(i) Operating Revenue and Expenses

The Exchange distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses include all items related to establishing and running a health insurance marketplace. There were no non-operating items for the years ended June 30, 2015 and 2014.

(j) Concentrations of Credit Risk

Financial instruments which potentially subject the Exchange to concentrations of credit risk consist of cash and federal grants receivable. The Exchange’s bank accounts at year-end were entirely covered by federal depository insurance or by collateral held by the Exchange’s custodial banks under provisions of the Colorado Public Deposit Protection Act (PDPA). PDPA requires financial institutions to pledge collateral having a market value of at least 102% of the aggregate public deposits not incurred by federal depository insurance. Eligible collateral includes municipal bonds, U.S. government securities, mortgages, and deeds of trust.

Colorado Health Benefit Exchange
Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(j) Concentrations of Credit Risk, Continued

The Exchange's federal grants receivable balance is due from one entity, relating to its federal grants. The Exchange receives substantially all of its revenue from federal grants. This revenue is contingent upon future approval of grant funding and appropriation by the federal government. If a significant reduction in the level of this support occurs, it would have a significant effect on the Exchange's programs and activities.

(k) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure on contingent assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

(l) Risk Management

The Exchange is subject to the risk of loss from various events, including, but not limited to, natural disasters and destruction of assets. The Exchange is currently covered by a commercial insurance program that contains multiple individual policies to mitigate risk exposure. Settled claims from these risks have not exceeded the insurance coverage in any of the past fiscal years.

(m) Subsequent Events

Management is required to evaluate, through the date the financial statements are issued or available to be issued, events or transactions that may require recognition or disclosure in the financial statements, and to disclose the date through which subsequent events were evaluated. The Exchange's financial statements were available to be issued on March 28, 2016, and this is the date through which subsequent events were evaluated.

(2) Capital Assets

Following are the changes in capital assets:

| | July 1, <u>2013</u> | <u>Additions</u> | <u>Retirements</u> | June 30, <u>2014</u> |
|--|------------------------|--------------------|--------------------|-------------------------|
| Web portal development | \$ 9,779,007 | 14,665,584 | — | 24,444,591 |
| Software | 8,577,522 | 3,033,580 | — | 11,611,102 |
| Leasehold improvements | 209,072 | 1,703,880 | — | 1,912,952 |
| Office equipment | 23,792 | 1,039,460 | — | 1,063,252 |
| Furniture and fixtures | <u>259,208</u> | <u>515,416</u> | — | <u>774,624</u> |
| | 18,848,601 | 20,957,920 | — | 39,806,521 |
| Less accumulated depreciation and amortization | <u>(1,210,245)</u> | <u>(4,787,199)</u> | — | <u>(5,997,444)</u> |
| Capital assets, net | \$ <u>17,638,356</u> | <u>16,170,721</u> | — | <u>33,809,077</u> |

Colorado Health Benefit Exchange

Notes to Financial Statements, Continued

(2) Capital Assets, Continued

| | July 1, <u>2014</u> | <u>Additions</u> | <u>Retirements</u> | June 30, <u>2015</u> |
|---|------------------------|--------------------|--------------------|-------------------------|
| Web portal development | \$ 24,444,591 | 8,242,457 | – | 32,687,048 |
| Software | 11,611,102 | 4,598,892 | – | 16,209,994 |
| Leasehold improvements | 1,912,952 | 30,690 | – | 1,943,642 |
| Office equipment | 1,063,252 | 20,446 | – | 1,083,698 |
| Furniture and fixtures | <u>774,624</u> | <u>59,152</u> | <u>–</u> | <u>833,776</u> |
| | 39,806,521 | 12,951,637 | – | 52,758,158 |
| Less accumulated depreciation and amortization | <u>(5,997,444)</u> | <u>(9,519,628)</u> | <u>–</u> | <u>(15,517,072)</u> |
| Capital assets, net | <u>\$ 33,809,077</u> | <u>3,432,009</u> | <u>–</u> | <u>37,241,086</u> |

(3) House Bill 13-1245

On May 6, 2013, the State of Colorado General Assembly passed House Bill 13-245, which outlines funding mechanisms that will help to support the Exchange in the short and long terms. Specifically, the House Bill allows for three components of the Exchange's future revenue approach. First, it allows for a fee to be placed on insurance carriers, which is not allowed to exceed \$1.80 per number of lives insured per month. The Exchange elected to waive this fee requirement for calendar year 2014. However, effective January 1, 2015, the Exchange assessed a fee of \$1.25 per number of lives insured per month. The Exchange has the option to exercise this fee assessment through December 2016. Second, the House Bill allows for a portion of reserves collected from the closing of CoverColorado to be transferred to the Exchange to fund operations. Lastly, any deductible donations made by insurance carriers, which have been directed to CoverColorado in the past, will now be pledged to the Exchange. Revenue recognized under House Bill 13-1245 totaled \$26,398,708 and \$19,992,000 for the years ended June 30, 2015 and 2014, respectively, and is included in program revenue on the Statement of Revenues, Expenses, and Changes in Net Position.

(4) Leases

The Exchange has a non-cancelable operating lease for office space in Denver, Colorado, which requires monthly payments totaling \$42,153, and is scheduled to expire in March 2018. Furthermore, the Exchange has a cancelable operating lease for office space in Colorado Springs, Colorado, which is being used for its call center. This lease is scheduled to expire in August 2020, unless the cancellation option is exercised, which requires 90 days notice. The Exchange is also obligated under a non-cancelable copier lease which requires monthly payments of \$1,882 and expires March 2018. Future minimum lease payments under non-cancelable operating leases are as follows for the years ended June 30:

| | |
|------|---------------------|
| 2016 | \$ 528,426 |
| 2017 | 528,426 |
| 2018 | <u>401,965</u> |
| | <u>\$ 1,458,817</u> |

Colorado Health Benefit Exchange

Notes to Financial Statements, Continued

(4) Leases, Continued

Lease expense in the accompanying financial statements is being recognized on the straight-line method, evenly over the term of each lease. Total rent expense for office space for the years ended June 30, 2015 and 2014 was \$591,165 and \$492,274, respectively. Total rent expense for the copier lease for the years ended June 30, 2015 and 2014 was \$27,169 and \$30,510, respectively.

(5) Commitments

The Exchange has entered into numerous multi-year contract agreements relating to the development of a health benefit exchange. Any agreements that exceed the Exchange's current grant periods are contingent upon future grant approval and appropriated funding by the federal government.

(6) Retirement Plan

The Exchange established a retirement plan under section 403(b) of the Internal Revenue Service Code that is available to certain of its employees. The Exchange contributes 5% of employee salaries for eligible employees. In addition, the Exchange matches 100% of the employee's elective deferral amount that does not exceed 5% of the total employee's compensation. Employees are 100% vested in their account balance after one year of service. Total employer contributions under this plan for the Exchange were \$353,963 for the year ended June 30, 2015 and \$289,951 for the year ended June 30, 2014.

(7) Related Party Transaction

During the year ended June 30, 2014, the Exchange contracted with a company to provide employee benefit services to its employees. One of the Exchange's board members serves as President of the company. Total payments made to the company during the year ended June 30, 2014 were \$83,367 and consisted of both employer and employee premiums.

(8) Prior Period Adjustment

During the year ended June 30, 2014, the Exchange entered into an agreement for the joint development of a shared eligibility system. Under the agreement, costs were incurred during the years ended June 30, 2015 and 2014. It was previously determined that costs incurred under the agreement did not meet the criteria to be capitalized and, therefore, were expensed. However, information recently became available which supported the determination that certain costs under the agreement did meet the criteria to be capitalized. As a result, a prior period adjustment was made to reclassify costs recognized during the year ended June 30, 2014, totaling \$2,260,670, from expenses to capital assets on the Statement of Net Position at June 30, 2014. The effect of restating the financial statements as of June 30, 2014 was to increase net assets and increase capital assets by \$2,260,670.

**Independent Auditor’s Report on Internal Control over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with Government Auditing Standards**

**Board of Directors
Colorado Health Benefit Exchange:**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Colorado Health Benefit Exchange (the Exchange), which comprise the statement of net position as of June 30, 2015, and the related statements of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 28, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Exchange’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Exchange’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Exchange’s internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a certain deficiency in internal control that we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and questioned costs as 2015-001 to be a material weakness.

**Board of Directors
Colorado Health Benefit Exchange**

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Exchange's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Exchange's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Exchange's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

March 28, 2016

Independent Auditor's Report on Compliance for Each Major Program and on Internal Control over Compliance Required by OMB Circular A-133

**Board of Directors
Colorado Health Benefit Exchange:**

Report on Compliance for Each Major Federal Program

We have audited Colorado Health Benefit Exchange's (the Exchange's) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Exchange's major federal programs for the year ended June 30, 2015. The Exchange's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Exchange's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Exchange's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Exchange's compliance.

Basis for Qualified Opinion on CFDA No. 93.525 State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchanges

As described in the accompanying schedule of findings and questioned costs, the Exchange did not comply with requirements regarding CFDA No. 93.525 State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchanges as described in finding number 2015-002 for Activities Allowed and Allowable Costs, Cash Management, and Reporting. Compliance with the requirement is necessary, in our opinion, for the Exchange to comply with the requirements applicable to that program.

**Board of Directors
Colorado Health Benefit Exchange**

Qualified Opinion on CFDA No. 93.525 State Planning and Establishment Grants to the Affordable Care Act (ACA)'s Exchanges

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the Exchange complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2015.

Other Matters

The results of our auditing procedures disclosed other instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2015-003 for Activities Allowed and Allowable Costs, 2015-004 for Subrecipient Monitoring, 2015-005 for Reporting, and 2015-006 for Procurement, Suspension and Debarment. Our opinion on each major federal program is not modified with respect to these matters.

The Exchange's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Exchange's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Management of the Exchange is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Exchange's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Exchange's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2015-002 for Activities Allowed and Allowable Costs, Cash Management, and Reporting to be a material weakness.

**Board of Directors
Colorado Health Benefit Exchange**

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2015-003 for Activities Allowed and Allowable Costs, 2015-004 for Subrecipient Monitoring, 2015-005 for Reporting, and 2015-006 for Procurement, Suspension and Debarment to be significant deficiencies.

The Exchange's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Exchange's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

March 28, 2016

**Colorado Health Benefit Exchange
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2015**

| Federal grantor/pass-through grantor/program title | Grant Number | Federal award year | Federal CFDA number | Federal expen- ditures |
|--|----------------|-----------------------|---------------------------|------------------------------|
| <i>U.S. Department of Health and Human Services:</i> | | | | |
| State Planning and Establishment | | | | |
| Grants for the Affordable Care | | | | |
| Act (ACA)'s Exchanges | HBEIE130169-01 | 7/9/13-6/30/16 | 93.525 | \$ 38,898,424 |
| <i>Total U.S. Department of Health and Human Services</i> | | | | <u>38,898,424</u> |
| Total Expenditures of Federal Awards | | | | <u>\$ 38,898,424</u> |

Notes to the Schedule of Expenditures of Federal Awards:

(1) Basis of Presentation

The schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of Colorado Health Benefit Exchange under programs of the federal government for the year ended June 30, 2015. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of Colorado Health Benefit Exchange, it is not intended to and does not present the net position, changes in net position, or cash flows of Colorado Health Benefit Exchange.

(2) Summary of Significant Accounting Policies

Expenditures reported in the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, and OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, wherein certain types of expenditure are not allowable or are limited as to reimbursement.

Colorado Health Benefit Exchange
Schedule of Expenditures of Federal Awards, Continued
Year Ended June 30, 2015

(3) Subrecipients

Of the federal expenditures presented in the schedule, Colorado Health Benefit Exchange provided federal awards to subrecipients as follows:

| Federal grantor/pass-through grantor/ program title | Federal CFDA number | Federal expen- ditures |
|--|---------------------------|------------------------------|
| Advanced Patient Advocacy | 93.525 | \$ 66,474 |
| Aurora Comprehensive Community Mental Health Center | 93.525 | 163,568 |
| Baca County Public Health Agency | 93.525 | 5,142 |
| Boomers Leading Change in Health | 93.525 | 68,721 |
| Broomfield Health and Human Services | 93.525 | 44,854 |
| Center for African American Health | 93.525 | 111,356 |
| Central Presbyterian | 93.525 | 38,240 |
| Centura Health LINKS | 93.525 | 171,432 |
| Chafee County Health and Human Services | 93.525 | 88,861 |
| Colorado Alliance for Health Equity and Practice | 93.525 | 106,356 |
| Colorado Health Care Association | 93.525 | 76,846 |
| Colorado Motor Carriers Association | 93.525 | 53,353 |
| Community Partnership Family Resource Center | 93.525 | 44,366 |
| Denver Health and Hospital | 93.525 | 91,577 |
| Denver Human Services | 93.525 | 208,779 |
| Denver Indian Health and Family Services | 93.525 | 26,376 |
| Doctors Care | 93.525 | 62,357 |
| Eagle County Health and Human Services | 93.525 | 346,296 |
| Family Resource Center Association | 93.525 | 319,002 |
| Family Voices | 93.525 | 57,074 |
| GLBT Center | 93.525 | 107,097 |
| Health District of Northern Larimer | 93.525 | 201,734 |
| High Plains Community Health Center | 93.525 | 49,987 |
| Hilltop Community Resources | 93.525 | 33,140 |
| Jefferson County Department of Human Services | 93.525 | 261,200 |
| Kids First Health Care | 93.525 | 3,445 |
| Kit Carson County | 93.525 | 47,423 |
| Lutheran Hospital Association of the SLV | 93.525 | 557 |
| Mountain Resource Center | 93.525 | 2,823 |
| Mt San Rafael | 93.525 | 62,039 |
| Northeast Colorado Health Department | 93.525 | 38,938 |
| NW Colorado Council of Governments | 93.525 | 15,300 |
| NW Colorado Visiting Nurses Association | 93.525 | 233,970 |
| Otero County Department of Human Services | 93.525 | 21,632 |

Colorado Health Benefit Exchange
Schedule of Expenditures of Federal Awards, Continued
Year Ended June 30, 2015

(3) Subrecipients, Continued

| Federal grantor/pass-through grantor/ program title | Federal CFDA number | Federal expen- ditures |
|--|---------------------------|------------------------------|
| Peak Vista Community Health Centers | 93.525 | \$ 188,264 |
| Pikes Peak Area Council of Government | 93.525 | 103,196 |
| Rio Grande Hospital | 93.525 | 812 |
| Salud Family Health | 93.525 | 309,497 |
| San Juan Basin Health | 93.525 | 72,963 |
| Senior Resource Development Agency | 93.525 | 29,262 |
| Servicios de La Raza | 93.525 | 238,677 |
| Small Business Majority Foundation | 93.525 | 132,939 |
| SouthWest Health Systems | 93.525 | 8,502 |
| Stapleton Foundation | 93.525 | 69,999 |
| Tri-County Health Network | 93.525 | 93,195 |
| Tri-Lakes Cares | 93.525 | 7,850 |
| Valley-Wide Health Systems | 93.525 | 115,797 |
| Volunteers of America | 93.525 | 111,141 |
| Total paid to subrecipients | | <u>\$ 4,712,409</u> |

Colorado Health Benefit Exchange
Schedule of Findings and Questioned Costs
Year Ended June 30, 2015

A. Summary of Auditor's Results

1. The auditor's report expresses an unmodified opinion on the financial statements of Colorado Health Benefit Exchange (the Exchange).
2. One material weakness during the audit of the financial statements is reported in the *Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards*.
3. No instances of noncompliance material to the financial statements of the Exchange, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. One material weakness and four significant deficiencies in internal control over major federal award programs disclosed during the audit are reported in the *Independent Auditor's Report on Compliance for Each Major Program and on Internal Control over Compliance Required by OMB A-133*.
5. The auditor's report on compliance for the major federal award program for the Exchange expresses a qualified opinion on State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchanges (CFDA No. 93.525).
6. Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this Schedule.
7. The program tested as a major program was State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchanges (CFDA No. 93.525).
8. The threshold used for distinguishing between Type A and Type B programs was \$1,166,953.
9. The Exchange did not qualify as a low-risk auditee.

B. Findings—Financial Statement Audit

2015-001 Controls over Financial Reporting (Material Weakness)

Criteria: The financial statements are to be free of material misstatement.

Condition: Our audit resulted in several significant audit adjustments, which indicates an opportunity for improved internal control over financial statement reporting. The following significant audit entries were made as a result of the current year audit:

- A prior period adjustment of \$2,260,670 was made to reclassify 2014 expenses to capital assets, based on information that later became available and supported the determination that these expenses met the criteria to be capitalized. This adjustment increased beginning net assets and capital assets.
- An adjustment of \$2,726,811 was made to remove costs from the current year activity, for work that was scheduled to be completed in fiscal 2016. This adjustment reduced capital assets by \$1,871,811, expenses by \$855,000, and liabilities by \$2,726,811. Of these future expenses, a total of \$1,946,811 had been recognized as a receivable under the federal grant. Therefore, the federal grant revenue and related receivable was reduced for \$1,946,811. An adjustment was also made to reduce depreciation expense by \$46,795 for depreciation that had been recognized on the costs. This adjustment did not result in unallowable costs.

Colorado Health Benefit Exchange
Schedule of Findings and Questioned Costs, Continued
Year Ended June 30, 2015

- An adjustment of \$610,200 was made to properly expense technology support costs which had been capitalized. Additionally, \$114,413 in recognized depreciation on the costs was reversed.
- An adjustment of \$651,254 was made to reduce the carrier fees receivable and the premiums payable to carriers. This adjustment had no effect on net income.

Cause: 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.

Effect: At June 30, 2015, assets were overstated by \$2,658,198, liabilities were overstated by \$3,378,065, beginning net assets were understated by \$2,260,670, and net income was overstated by \$1,540,803.

Recommendation: 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.

View of Responsible Officials and Planned Corrective Action: 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.

C. Findings and Questioned Costs—Major Federal Award Programs Audit

2015-002 CFDA No. 93.525 State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchanges
Activities Allowed and Allowable Costs, Cash Management, and Reporting – Material Weakness

Criteria: Internal controls should be implemented that allow the Exchange to identify unallowable costs in a timely manner, in order to allow for accurate reporting and proper cash management.

Colorado Health Benefit Exchange
Schedule of Findings and Questioned Costs, Continued
Year Ended June 30, 2015

Condition: Subsequent to claims made throughout the year and subsequent to year-end, the Exchange made numerous corrections to reallocate unallowable costs under the federal grant to other funding. Most of these unallowable costs consisted of operating costs being charged to the grant after January 1, 2015, which is unallowable under the grant. Also, adjustments were made for costs that were determined to be unallowable under audits conducted on the Exchange. Due to inadequate controls in place, the unallowable costs were not identified in a timely manner, allowing for federal funds to be drawn and disbursed for payment. As a result of the untimely corrections, a liability totaling \$6,613,885 has been recognized as of June 30, 2015 for amounts due under the federal grant. Federal grant recipients are required to implement procedures to minimize the time elapsing between the transfer and disbursement of federal funds.

Additionally, under the federal grant, the Exchange is required to file quarterly Federal Financial Reports (FFR) on the Standard Form 425, as well as monthly budget to actual reports with the federal agency. The Exchange also relies internally on the budget to actual report to monitor its spending on the federal grant. Both of these reports require cumulative financial information to be presented. However, as a result of the untimely corrections made, the financial amounts reported on the required reports were inaccurate and not corrected by the Exchange.

Cause: Controls were not in place to identify unallowable costs in a timely manner.

Effect: The lack of controls resulted in a liability of \$6,613,885 as of June 30, 2015 for amounts due under the federal grant and resulted in inaccurate financial reporting.

Recommendation: 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.

Views of Responsible Officials and Planned Corrective Actions: 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.

Colorado Health Benefit Exchange
Schedule of Findings and Questioned Costs, Continued
Year Ended June 30, 2015

2015-003 CFDA No. 93.525 State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchanges
Activities Allowed and Allowable Costs – Significant Deficiency

Criteria: Under OMB Circular A-110, the “cost-plus-a-percentage-of-cost” method of contracting is not allowed. The “cost-plus-a-percentage-of-cost” is a method of contracting or a type of contract under which the contractor is not only reimbursed his performance costs but is also paid a stated percentage of the costs.

Condition: The Exchange entered into two contracts with one of its vendors for media placement services which required reimbursement for media buys, as well as fees to be paid to the vendor at 8% of the media placement buys. This is a repeat of prior year finding 2014-006.

Questioned Costs: A total of \$2,623,479 in expenses were incurred under the contracts and charged to the grant during fiscal 2015, which included \$194,428 in fees paid to the vendor under the contractual agreement.

Cause: Controls were not in place to properly identify the unallowable costs.

Effect: Unallowable costs were purchased using federal grant funds.

Recommendation: Employees with procurement responsibility should be adequately trained and able to identify unallowable costs under the federal program.

Views of Responsible Officials and Planned Corrective Actions: 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.

2015-004 U.S. Department of Health and Human Services
CFDA No. 93.525 State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchanges
Subrecipient Monitoring – Significant Deficiency

Criteria: When a pass-through entity passes a grant through to a subrecipient, federal agencies hold the pass-through entity ultimately responsible for compliance at the subrecipient level. The OMB A-133 compliance supplement states that pass-through entities have responsibility for (1) ensuring that 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. Pass-through entities are also responsible for properly identifying to the subrecipient the federal award information.

Colorado Health Benefit Exchange
Schedule of Findings and Questioned Costs, Continued
Year Ended June 30, 2015

Condition: For one of the three subrecipient audits reviewed as part of the audit, the subrecipient did not list the federal award provided by the Exchange on its Schedule of Expenditures of Federal Awards, which expended \$319,903 in federal expenditures during the fiscal year under review. Therefore, the subrecipient failed to include these expenditures in their OMB Circular A-133 audit and, as a result, did not accurately meet the audit requirements under OMB Circular A-133. The Exchange was unable to provide documentation showing that this error was followed up on and subsequently corrected by the subrecipient. Also, during fiscal 2015, the Exchange used non-federal sources of funding to reimburse some of the expenses under the subawards. However, the Exchange does not have a policy in place to identify to the subrecipients the portion of funding attributable to federal sources of funding vs. non-federal sources. This results in inaccurate reporting of federal expenditures for the subrecipient audits and could result in deficient audits being performed under OMB Circular A-133. Also, this leads to inaccurate reporting under the Federal Funding Accountability and Transparency Act, through which the Exchange must report total federal subaward amounts that are awarded to subrecipients.

Questioned Costs: This finding did not result in questioned costs.

Cause: 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.

Effect: As a pass-through entity, the Exchange has not properly monitored compliance at the subrecipient level.

Recommendation: 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.

Views of Responsible Officials and Planned Corrective Actions: 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.

2015-005 U.S. Department of Health and Human Services
CFDA No. 93.525 State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchanges
Reporting – Significant Deficiency

Criteria: The Federal Funding Accountability and Transparency Act (FFATA) requires direct recipients of federal funds who make subawards to capture and report subawards. A direct recipient is required to file a FFATA sub-award report by the end of the month following the month in which the direct recipient awards any sub-grant greater than or

Colorado Health Benefit Exchange
Schedule of Findings and Questioned Costs, Continued
Year Ended June 30, 2015

equal to \$25,000. The reporting is conducted through the FFATA Subaward Reporting System (FSRS).

Condition: In follow-up to prior year finding 2014-004, the required FFATA reporting was reviewed for subawards issued in July 2013. The report was originally submitted in April 2015 and subsequently corrected in February and March 2016. Review of the report showed that incorrect federal subaward amounts were reported for the subrecipients. The Exchange had reported cumulative federal expenditures to date under the subawards. However, the total approved federal award amount under the subaward is required to be reported. Additionally, as a result of finding 2015-004 above, it is unclear what amounts should be reported as the approved federal funding amounts under the awards have not been specifically identified.

Questioned Costs: This finding did not result in questioned costs.

Cause: The Exchange failed to accurately identify reporting requirements.

Effect: The Exchange did not file accurate reports under FFATA.

Recommendation: 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.

Views of Responsible Officials and Planned Corrective Actions: 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.

2015-006 U.S. Department of Health and Human Services
CFDA No. 93.525 State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchanges
Procurement, Suspension and Debarment - Significant Deficiency

Criteria: OMB Circular A-110 requires that records are maintained that sufficiently detail the procurement process. For instance, these standards require that records are maintained to sufficiently detail the history of procurement. The records should include, but are not limited to the rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price. Additionally, all procurement transactions must be conducted in a manner providing full and open competition consistent with federal standards and requirements. Standards also require that some form of cost or price analysis be made and documented in the procurement files in connection with every procurement action.

Condition: During fiscal 2015, the Exchange entered into two large contracts with a vendor, totaling \$6,048,000, to provide media placement services. As part of the procurement process, the Exchange provided a memo to the Board briefly describing the procurement process and specifying that three separate vendors were reviewed in the process. However, the Exchange was unable to provide supporting records that detailed the history of procurement, including descriptive information of the three vendors

Colorado Health Benefit Exchange
Schedule of Findings and Questioned Costs, Continued
Year Ended June 30, 2015

reviewed, basis of selection or rejection for the vendors, cost analysis, and evidence that an open proposal process was followed.

Also, as part of the procurement process, the Exchange requires Board approval for contracts over \$150,000. Board approval was noted for one of the contracts, totaling \$1,998,000. However, the Exchange was unable to provide evidence of Board approval for the other contract, totaling \$4,050,000.

Questioned Costs: During fiscal 2015, federal expenditures charged to the federal grant under the contracts totaled \$2,623,479.

Cause: 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.

Effect: The Exchange lacks proper records that detail the procurement process followed for the contracts, as required by OMB Circular A-110.

Recommendation: 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.

Views of Responsible Officials and Planned Corrective Actions: 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).

Colorado Health Benefit Exchange
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2015

2014-001 Controls over Financial Reporting (Material Weakness)

Condition: Our audit resulted in three significant audit adjustments, which indicates an opportunity for improved internal control over financial statement reporting. The entries were the result of improper application of generally accepted accounting principles and failure to identify the proper accounting treatment.

Recommendation: 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.

Current Status: The recommendation was not fully implemented. A similar finding was disclosed in the current year audit as item 2015-001.

2014-002 U.S. Department of Health and Human Services
CFDA No. 93.525 State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchanges
Period of Availability – Material Weakness

Condition: Each of the grants received under this program specify a specific grant period during which funds must be obligated. However, certain purchases were made for future services that will occur outside of the grant period. These purchases consisted of prepayments for software maintenance and support services which will fall outside the grant periods specified within the grant agreements.

Recommendation: It was recommended that management further develop and implement policies and procedures to properly identify costs that fall outside of the award period. In situations where this may occur or has occurred, management should obtain a waiver or documentation of pre-approval for the identified costs.

Current Status: The finding was corrected and current year federal expenditures were reduced for the correction. No similar findings were noted in the current year audit.

2014-003 U.S. Department of Health and Human Services
CFDA No. 93.525 State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchanges
Subrecipient Monitoring – Material Weakness

Condition: The Exchange did not have procedures in place that allowed for proper monitoring and follow-up of subrecipient audits.

Recommendation: It was recommended that the Exchange establish internal control procedures that ensure compliance with the monitoring of subrecipient audits.

Current Status: The recommendation was not fully implemented. The Exchange did establish new internal control procedures to monitor subrecipient audits. However, the controls were not effective as there was a related finding noted with the current year audit, reported as item 2015-004.

Colorado Health Benefit Exchange
Schedule of Findings and Questioned Costs, Continued
Year Ended June 30, 2015

2014-004 U.S. Department of Health and Human Services
CFDA No. 93.525 State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchanges
Reporting – Material Weakness

Condition: The Exchange failed to comply with reporting requirements under FFATA.

Recommendation: It was recommended that the Exchange comply with the reporting requirements as soon as possible. Additionally, the Exchange should implement control procedures to ensure that reporting requirements are met timely in the future.

Current Status: The recommendation was not fully implemented. The Exchange did retroactively file FFATA reports. However, the financial information reported within the report was inaccurate. Therefore, a similar finding was issued with the current year audit as item 2015-005.

2014-005 U.S. Department of Health and Human Services
CFDA No. 93.525 State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchanges
Cash Management - Significant Deficiency

Condition: The Exchange did not maintain advances of federal funds within an interest-bearing account.

Recommendation: It was recommended that the Exchange ensure that any federal funds received in advance are maintained in interest-bearing accounts. The interest earned on the account should be tracked throughout the year and any interest earned over \$250 should be remitted to the U.S. Department of Health and Human Services.

Current Status: The recommendation was implemented. The Exchange is holding federal funds within an interest-bearing account. Additionally, at June 30, 2015, the Exchange had properly accrued interest totaling \$4,633 to be paid to the U.S. Department of Health and Human Services in fiscal 2016.

2014-006 U.S. Department of Health and Human Services
CFDA No. 93.525 State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchanges
Activities Allowed and Allowable Costs – Significant Deficiency

Condition: The Exchange used federal funds to purchase certain promotional items, including sunscreen, lip balms, beanies, t-shirts, bike bottles, etc. Also, the Exchange was under contract with one of its vendors which required that a management fee be paid at 15% of the reimbursed costs.

Recommendation: It was recommended that employees with procurement responsibility be adequately trained and able to identify unallowable costs under the federal program.

Current Status: The recommendation was partially implemented. A similar finding related to a management fee charged under a cost-plus-a-percentage-of-cost contract was disclosed in item 2015-003 in the current year audit. However, no findings related to purchase of promotional items were noted in the current year audit.

To Management and the Board of Directors of
Colorado Health Benefit Exchange:

In planning and performing our audit of the financial statements of Colorado Health Benefit Exchange (the Exchange) as of and for the year ended June 30, 2015, in accordance with auditing standards generally accepted in the United States of America, we considered the Exchange's internal control over financial reporting (internal control) as a basis for designing our auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Exchange's internal control. Accordingly, we do not express an opinion on the effectiveness of the Exchange's internal control.

During our audit of the Exchange, we became aware of several matters that are not internal control deficiencies required to be reported under generally accepted auditing standards, but warrant the attention of management. The attachment that accompanies this letter summarizes our comments and suggestions regarding those matters.

This communication is intended solely for the information and use of management, the board of directors, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

March 28, 2016

Colorado Health Benefit Exchange
Operational Matters Letter
Year Ended June 30, 2015

Current Year Comments

- 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.
- 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. The Exchange should require their employees to complete these certifications, in accordance with OMB Circular A-87. Also, where possible, this policy should be retroactively implemented.

Additionally, beginning January 1, 2015, operational costs are no longer allowed to be charged to the federal grant. The Exchange did not allocate any salaries to the federal grant for the period January 1, 2015 through June 30, 2015. However, 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.

- 3) 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. Internal controls should be implemented as to allow for proper identification of unallowable costs in a timely manner.
- 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

Colorado Health Benefit Exchange
Operational Matters Letter
Year Ended June 30, 2015

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. 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.

Prior Year Comments

- 1) Exchange policy requires that the Executive Director's expense reimbursements be reviewed and approved quarterly by the Board Chair or the Finance Committee Chair. It was evidenced during our testing that this procedure was being conducted, but not on a timely basis. The Executive Director's expense reimbursements that occurred during fiscal 2014 were only reviewed and approved at one time, in August 2014. It is important that this review be conducted quarterly, in order to determine the appropriateness of amounts charged to the Exchange on a timely basis.

Status: Implemented.

- 2) As a 501(c)(3) non-profit organization, the Exchange follows OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, as required. However, it was previously determined that the Exchange, as an instrumentality of the State, is also considered a state-based government entity. Therefore, as a state-based government entity, the Exchange should also be following OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*. However, the Exchange's policies did not reference this circular, nor was staff knowledgeable and aware of this circular. Therefore, it was recommended that the Exchange update its policies to include cost principles under this circular, as well as ensure employees are aware of and properly trained for the requirements under this circular.

Status: Implemented.

- 3) Board members and certain Exchange employees are required to complete a conflict of interest disclosure upon hire and on an annual basis. However, this policy was not consistently followed and most employees were only completing this disclosure upon hire. Additionally, some board members were not completing the disclosure on a timely basis. The Exchange should adhere to its policy, requiring that this disclosure be completed consistently on an annual basis. This can be attained by requiring staff and board members to update the disclosure at one time during the year.

Status: Implemented.

- 4) Although the auditor may assist in preparing the Schedule of Expenditure of Federal Awards, the auditee is responsible for preparation of the schedule. The auditor then determines whether the Schedule of Expenditures of Federal Awards is presented fairly in all material respects in relation to the financial statements as a whole and issues a report on the schedule. A Schedule of Expenditure of Federal Awards was not entirely prepared by the Exchange prior to the audit. Rather, some of the schedule was compiled by us, using information provided as part of the audit. We recommended that personnel be properly trained to prepare the schedule and that, for future audits, the schedule be prepared by personnel prior to the audit.

Status: Not implemented. For the fiscal 2015 audit, we again prepared the Schedule using information provided to us as part of the audit.

Colorado Health Benefit Exchange
Operational Matters Letter
Year Ended June 30, 2015

- 5) During our testing, we noted that, in some cases, expenditures were being made prior to finalization and signature on the related contracts. While the expenditures were ultimately approved through invoice approval and check signature, this untimely signing of contracts was not in compliance with the Exchange's internal policies.

Status: Implemented. No exceptions were noted during our current year testing.

- 6) An accrual totaling approximately \$6.8M was recorded on the books at June 30, 2014, relating to a large vendor contract. The accrual was estimated by management, using the percentage of completion method. However, when requested as part of the audit, there was no support for the methodology used to accrue the amount. The contract dates were dated after June 30, 2014 and, therefore, failed to properly support the accrual amount. In addition, there was no support obtained from vendor supporting the completion of work through June 30, 2014. However, as a result of the audit, support was requested and received from the vendor, in support of the percentage of work completed as of June 30, 2014. Therefore, although support was ultimately obtained, it was not obtained in a timely manner. It was recommended that the Exchange obtain and maintain within its records support for all amounts recognized within the general ledger.

Status: Implemented. No exceptions were noted during our current year testing.

- 7) Federal Financial Reports (FFR) are required to be filed under the federal program on both an annual and quarterly basis, and include reporting of cumulative amounts received for the federal program as a whole, and individually by grant. During our review of the reports, we noted a \$430,721 difference in amounts allocated to the second Level 1 grant under the accounting records, versus amounts that were reported on the FFR. This difference was not significant to the federal grant and did not affect the cumulative amount reported for the program as a whole. However, it did indicate a lack of reconciliation procedures being conducted between federal reports and the accounting records. A cumulative reconciliation should be prepared between the accounting records and what is reported on the reports.

Status: Implemented. No exceptions were noted during our current year testing.

- 8) The Exchange has approved and allowed a 10% indirect cost rate reimbursement on some of its awards to subrecipients. However, support for the indirect cost rate had not been requested and obtained from the subrecipients. Support should be obtained from the subrecipients demonstrating that indirect costs generally exceed this amount. Note that the 10% rate is conservative and, under the new OMB Uniform Grant Guidance, an automatic 10% indirect cost rate is allowed under all federal agreements entered into after December 26, 2014.

Status: Not implemented. No new subrecipient agreements were entered into during fiscal 2015. However, the Exchange should consider obtaining support retroactively for the indirect cost rates charged.

- 9) The Exchange's new accounting software (which was implemented effective July 1, 2013) allows for activity to be recorded by fund and class, which is important for distinguishing activity on the federal grants from other activity. However, during the year, this function was not always utilized, leaving some amounts of activity unclassified. We recommended that the Exchange utilize this function, including reporting activity for each of the federal grants separately within the software.

Status: Implemented.

Colorado Health Benefit Exchange
Operational Matters Letter
Year Ended June 30, 2015

- 10) The federal grant agreements recommend that the Exchange include contract clauses within its contracts with vendors and grants to subrecipients, that specifically promote re-use of assets. However, during our review of subrecipient agreements, we noted that there is not a specific clause included in the agreements. We recommended that the Exchange include the clause within its contract and grant agreements.

Status: Implemented. No new subrecipient agreements were entered into during fiscal 2015. However, the Exchange should ensure, going forward, that any new agreements include the recommended verbiage.

- 11) As a result of the audit, an adjustment was made to recognize two bank accounts, a liability of \$557,218 for premiums due to carriers, and \$7,911 in fee revenue earned. As the bank accounts mainly represent amounts due to carriers, the accounts were not recorded within the general ledger. However, the accounting department was properly monitoring and recognizing the activity of the accounts off the books. Because the bank accounts are assets of the Exchange, they should have been recognized within the general ledger.

Status: Implemented.

- 12) Federal grant recipients are required to implement procedures to minimize the time elapsing between the transfer and disbursement of federal funds. Cash advances should be limited to the minimum amounts needed and be timed to be in accordance with the actual, immediate cash requirements of the organization in carrying out the purpose of the project. The timing and amount of cash advances should be as close as is administratively feasible to the actual disbursements by the recipient organizations.

The Exchange's policies require that an online request for a drawdown of federal funds be made after checks are cut and other obligations are identified. After the drawdown request is submitted, federal funds are then wired to the Exchange's operating account within 1-5 days. At the time the funds are received, the checks are then disbursed and other obligations met. However, in September 2013, a large advance was requested, totaling \$14,865,471. This draw resulted in an overdrawn (or advance) balance for the program for a period of 74 days. Furthermore, after the advance was received, the Exchange continued to make draws, further increasing the amount of advanced funds held.

The Exchange requested and received the advance out of normal policy, in anticipation of a possible government shut-down, which would have resulted in a possible freeze on federal funds. Therefore, the advance was made under unusual circumstances. However, under the circumstances, management should have continued to expend the advanced funds, rather than requesting and drawing additional federal funds.

Status: Not fully implemented. A large cash advance balance exists at June 30, 2015. See further discussion in the "Schedule of Findings and Questioned Costs".

**Colorado Health Benefit Exchange
Communication with Those Charged with Governance
Regarding the June 30, 2015 Audit**

| AREA | COMMENT |
|---|--|
| Our Responsibility Under U.S. Generally Accepted Auditing Standards (GAAS) | Audit performed in accordance with GAAS. The objective of an audit is reasonable, but not absolute, assurance about whether the financials are free of material misstatement. Our audit does not relieve you or management of your responsibilities. |
| Other Information in Documents Containing Audited Financials | The financial statements include OMB Circular A-133 required information for the year ended June 30, 2015. The financial statements include GASB 34-required Management Discussion and Analysis for the year ended June 30, 2015. |
| Planned Scope and Timing of Audit | The audit was performed according to the planned scope and timing previously communicated to you in our engagement letter dated September 22, 2015. |
| Significant Audit Findings | <ol style="list-style-type: none"> 1. Management has the responsibility for selection and use of appropriate accounting policies. The significant policies used (such as the basis of accounting, type of entity and the definition of operating revenue) are listed in Note 1 to the financial statements. 2. No new accounting policies were adopted during the year and the application of existing policies was not changed during the year. 3. We noted no transactions were entered into in 2015 with an absence of authoritative accounting guidance or consensus. 4. There were no significant transactions recognized in a different period than when the transaction occurred. 5. Sensitive accounting estimates include the following: the collectibility of receivables, the receivable for carrier fees, the amortization period of deferred costs, the depreciable lives of capitalized assets, and the recognition of contract expense. 6. Financial statement disclosures are neutral, consistent and clear. The related party footnote may be considered sensitive. |
| Difficulties Encountered in Performing the Audit | We encountered no significant difficulties in dealing with management in performing and completing our audit. Mainly due to significant staff turnover, we encountered some difficulties in receiving information in a timely manner in order to perform and complete the audit. |
| Corrected and Uncorrected Misstatements | Management has corrected all known and likely misstatements. Certain audit adjustments were made and they are described within the audit reports. |
| Disagreements with Management | No disagreements arose with management during the course of our audit on financial accounting, reporting or auditing matters. |

**Colorado Health Benefit Exchange
Communication with Those Charged with Governance, Continued
Regarding the June 30, Audit**

| AREA | COMMENT |
|--|---|
| Management Representations | We requested certain representations from management that are included in their representation letter dated March 28, 2016. |
| Management Consultations with Other Independent Accountants | We are not aware of any consultations by management with other accountants about accounting and auditing matters. |
| Other Audit Findings or Issues | There were no discussions of the application of certain accounting principles prior to our retention as auditor. |

This communication is intended solely for the use of the board of directors and management of the Exchange and is not intended to be, and should not be, used by anyone other than these specified parties.

March 28, 2016